



HILLINGDON
LONDON



Pensions Committee

Date: TUESDAY, 14 DECEMBER
2010

Time: 5.30 PM

Venue: COMMITTEE ROOM 5 -
CIVIC CENTRE, HIGH
STREET, UXBRIDGE UB8
1UW

**Meeting
Details:** Members of the Public and
Press are welcome to attend
this meeting

Councillors on the Committee

Philip Corthorne (Chairman)
Michael Markham (Vice-Chairman)
Paul Harmsworth (Labour Lead)
David Simmonds
Janet Duncan
Richard Lewis

Advisory Members

John Holroyd
Andrew Scott

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<http://modgov.hillingdon.gov.uk/ieListMeetings.aspx?CId=125&Year=2010>

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Agenda

- 1 Apologies for Absence
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Agenda Item 3

Minutes

PENSIONS COMMITTEE

22 September 2010

Meeting held at Committee Room 3 - Civic Centre,
High Street, Uxbridge UB8 1UW



HILLINGDON
LONDON

	<p>Committee Members Present: Councillors Philip Corthorne (Chairman), Peter Kemp, Josephine Barrett and Neil Fyfe.</p> <p>Advisory Members /Co-optee Members Present: John Holroyd and Andrew Scott</p> <p>LBH Officers Present: Tunde Adekoya, James Lake, Nancy LeRoux and Nav Johal</p> <p>Also Present: Valentine Furniss, John Hastings and Helen Perkins (in part)</p>	
16.	<p>APOLOGIES FOR ABSENCE (<i>Agenda Item 1</i>)</p> <p>Apologies for absence were received from Councillor's Markham, Harmsworth, Cooper, Duncan and Lewis.</p>	Action by
17.	<p>DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING (<i>Agenda Item 2</i>)</p> <p>Councillors Corthorne and Barrett, and advisory members Andrew Scott and John Holroyd, declared a personal interest in all Agenda Items, in that they were all members of the Local Government Pension Scheme, and remained in the room.</p>	Action by
18.	<p>MINUTES OF THE MEETING - 23 JUNE 2010 (<i>Agenda Item 3</i>)</p> <p>RESOLVED: That the minutes of the Pensions Committee meeting on 23 June 2010 be agreed as a correct record.</p>	Action by
19.	<p>TO CONFIRM THAT THE ITEMS OF BUSINESS MARKED PART 1 WILL BE CONSIDERED IN PUBLIC AND THAT THE ITEMS MARKED PART 2 WILL BE CONSIDERED IN PRIVATE (<i>Agenda Item 4</i>)</p> <p>RESOLVED: That:</p> <ol style="list-style-type: none"> 1. Agenda Items 1 to 10 be considered in public; and 2. Agenda Items 11 to 14 be considered in private for the reasons stated on the agenda. Members of the press and public would be excluded from the meeting during the consideration of these items. 	Action by

20.	<p>REVIEW OF PERFORMANCE MEASUREMENT OF THE FUND <i>(Agenda Item 5)</i></p> <p>The Chairman introduced the report which reviewed the fund management performance of the London Borough of Hillingdon Pension Fund for the quarter to 30 June 2010. Members noted that the last quarter marked a further period of underperformance. This underperformance was mainly due to the passive currency effect and stock selection.</p> <p>A large factor of the underperformance was related to BP and UBS. Hillingdon has now established an investment sub-committee who will be taking performance into account as part of its workplan. It was noted that there was insufficient time at the quarterly committee meetings to fully review arising issues.</p> <p>RESOLVED: That the content of the report and the performance of the Fund Managers be noted.</p>	Action by
21.	<p>PENSION FUND ANNUAL REPORT AND ACCOUNTS 2010 <i>(Agenda Item 6)</i></p> <p>The Chairman introduced the report. This report summarised the findings of the External Auditor on the audit of the 2009/10 Pension Fund Annual Report and Accounts.</p> <p>Helen Perkins gave a verbal update of Deloitte's report on London Borough of Hillingdon Pension Fund Accounts. This report went to Audit Committee on 21 September 2010. Comments from the Audit Committee were:</p> <p>'Members referred to Accounting and Internal Control Systems and the issue relating to Review of Fund Managers' internal control reports. The Pensions committee was asked to note the recommendation from the external auditors on this, in particular the reference to supplementing reviews into the investment manager internal control reports with visits to each of the key investment managers, such as SsgA and UBS.'</p> <p>As part of the audit planning process 3 areas of risk were identified:</p> <ul style="list-style-type: none"> • Calculation of contributions in light of there being more than one admitted body. • The calculation of benefits given the complexities of calculating retirement, ill health and the death benefits as a result of changes introduced in 2008. • The valuation of private equity. <p>The auditor had indicated that it was expected that an unmodified opinion would be given on the Pension fund statements and would be issued by 30 September.</p> <p>The internal review process had been completed and it was anticipated that that it would be signed off with no modifications. Testing was</p>	Action by

	<p>carried out without any exception and it did not indicate anything to bring to attention.</p> <p>The auditor commented that officers had put in a considerable amount of work in the last year which had delivered significant improvements in the quality of the accounts and working papers. An issued was raised in relation to the authorisation of journals in the system and officers were able to provide assurance that this recommendation was not implemented.</p> <p>The Chairman thanked the auditor for her presentation and noted the improvements. Members commented this was an area of good practice.</p> <p>RESOLVED: That Committee approve the Pension Fund Annual Report and Accounts & noted the auditor’s findings.</p>	
22.	<p>BUDGET MONITOR (<i>Agenda Item 7</i>)</p> <p>The Chairman introduced the report and Members were advised that the Committee received a quarterly report on the Pension fund budget. The report provided Members with an update at the end of quarter 1 against the budget.</p> <p>Members questioned officers on what the miscellaneous costs in the budget included. Officers replied that this related to both actuarial and audit fees.</p> <p>Officers also commented that due to a higher than usual number of deaths it was not easy to forecast full year variance at this stage. This would be developed for the next quarter.</p> <p>It was also noted that the surplus of contributions over benefits in terms of normal cashflow was decreasing and a reduction in the number of active members could adversely impact this situation.</p> <p>Members commented that the vast majority of the figures on the spreadsheet were beyond their control.</p> <p>RESOLVED: That the Committee noted the budget outturn position at 30 June 2010.</p>	Action by
23.	<p>EARLY RETIREMENT MONITOR (<i>Agenda Item 8</i>)</p> <p>The Chairman introduced the report which summarised the number of early retirements in the first quarter. The report also gave an update on the current situation on the cost to the fund of early retirements.</p> <p>Members commented that the current performance statistics showed a reasonable position but were mindful that the current climate could have an impact.</p>	Action by

	<p>Officers commented that if any redundancies were made for those over the age of 55 years old they would be entitled to immediate payment of pension, but that the council and not the fund would be liable for the cost of the early payments.</p> <p>Members noted that the council pays an additional 1% to the fund to cover the costs of early retirements.</p> <p>RESOLVED: That the content of the report be noted.</p>	
24.	<p>ADMINISTRATION PERFORMANCE REPORT (<i>Agenda Item 9</i>)</p> <p>The Chairman introduced the report which summarised the key work areas of the pensions administration section. The report highlighted nationally agreed targets. It was noted that the full year performance data was included in the Annual report for the fund.</p> <p>Officers commented that this was previously only reported to Committee annually and it had been thought more appropriate to bring this to Committee quarterly. Members noted that the section currently had two staff vacancies and the performance data reflected how work had been prioritised.</p> <p>RESOLVED: That the content of the report be noted.</p>	Action by
25.	<p>REPORT ON GOVERNANCE (<i>Agenda Item 10</i>)</p> <p>The Chairman introduced the report which provided an update on the Pension Fund Governance issues.</p> <p>Officers explained that the Hutton review of Public Sector Pensions was due to issue an interim report in October and a final report in March. It was also noted that if regulation changes resulted from this report then the final valuation results could be delayed.</p> <p>Members reported that an initial meeting had taken place on the progress of the triennial valuation of the fund. Early indications were showing that the funding level had dropped, but there was further work to be done in this area. A full report would be brought to Committee in March.</p> <p>Members spoke about the request from Stockley Academy to be represented on Pensions Committee. It was confirmed that this would be a non-voting advisory role. Members discussed that the meetings were public meetings and that anyone could attend. They felt that rather than set a precedent and request to Council to have a seat for Stockley Academy, that they would ask officers to write to them and invite them to the meetings. They could consider a request again in the future.</p>	<p>Action by</p> <p>Nancy LeRoux</p>

	<p>Members discussed the pensions administration system contract which was to expire at the end of December of this year. Due to the ongoing Hutton review officers were unclear on what the scheme would be going forward. Officers had discussed this with the Head of Procurement who stated it was appropriate to extend the existing contract by 2 years rather than re-tender.</p> <p>RESOLVED:</p> <ol style="list-style-type: none"> 1. That Committee noted the contents of the report. 2. That Committee discussed whether to progress the request by Stockley Academy to be presented on Committee. This request was rejected for reasons mentioned above. 3. That the Committee agreed to approve the extension to the existing pensions administration system contract for a further two year period. 	
26.	<p>REPORT FROM INVESTMENT SUB COMMITTEE (<i>Agenda Item 11</i>)</p> <p><i>This item was discussed as a Part 2 item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed ‘information relating to the financial or business affairs of any particular person (including the authority holding that information)’ (paragraph 3 of the schedule to the Act).</i></p>	Action by
27.	<p>QUARTERLY REVIEW OF PENSION FUNDS RISKS (<i>Agenda Item 12</i>)</p> <p><i>This item was discussed as a Part 2 item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed ‘information relating to the financial or business affairs of any particular person (including the authority holding that information)’ (paragraph 3 of the schedule to the Act).</i></p>	Action by Nancy LeRoux
28.	<p>CORPORATE GOVERNANCE & SOCIALLY RESPONSIBLE INVESTMENT (<i>Agenda Item 13</i>)</p> <p><i>This item was discussed as a Part 2 item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed ‘information relating to the financial or business affairs of any particular person (including the authority holding that information)’ (paragraph 3 of the schedule to the Act).</i></p>	Action by

29.	<p>INVESTMENT ADVICE DISCUSSION (<i>Agenda Item 14</i>)</p> <p>This item was deferred to the next Committee meeting on 14th December 2010.</p>	Action by
<p>The meeting, which commenced at 5.30pm, closed at 6.32pm.</p>		

These are the minutes of the above meeting. For more information on any of the resolutions please contact Nav Johal on 01895 250692. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND

Contact Officers

James Lake, 01895 277562

Papers with this report

Northern Trust Executive Report
WM Local Authority Quarter Reports
Private Equity Listing
Private Equity reports from Adams Street and LGT

SUMMARY

This report reviews the fund management performance for the London Borough of Hillingdon Pension Fund for the period ending 30 September 2010. The value of the fund as at the 30 September was £560m.

RECOMMENDATIONS

1. That the content of this report be noted and the performance of the Fund Managers be discussed.

INFORMATION

1. The fund delivered positive performance of 8.01% for the quarter to 30 September 2010, underperforming the benchmark by 1.2%. One year, three year, five year and since inception figures show returns of 8.59%, (2.18%), 3.06% and 6.28% respectively.

Performance Attribution Relative to Benchmark

	Q3 2010 %	1 Year %	3 Years %	5 Years %	Since Inception %
Goldman Sachs	0.29	0.84	(1.02)	(0.60)	(0.62)
UBS	1.06	(4.52)	(1.94)	(2.21)	1.05
Alliance Bernstein	(0.17)	(5.10)	(5.76)	-	(4.00)
UBS Property	0.16	(5.01)	(0.66)	-	(0.75)
SSgA	(0.07)	(0.01)	-	-	0.07
SSgA Drawdown	0.34	0.61	-	-	0.63
Ruffer	3.29	-	-	-	0.44
Marathon	4.05	-	-	-	4.31
Fauchier	(2.60)	-	-	-	(2.60)
Total Fund	(1.20)	(3.23)	(3.13)	(2.15)	(0.45)

2. A major impact on performance was the positive currency effect which added 1.06%. This was mainly due the underweight position in the weak US Dollar and an overweight position in the strong Euro. Overall performance was dragged down by asset allocation, with underweight positions in both the UK and US markets

detracting 0.30% and 0.71% respectively. An overweight position in Europe which added 0.58% was not enough to offset these effects.

3. Both the whole fund and manager benchmarks are currently under review and will be discussed further early in the New Year.

Market Commentary

4. Following a poor previous quarter, equity markets rebounded with impressive returns in quarter three. Strong earnings and encouraging Eurozone bank stress testing results, complemented by positive bank earning reports helped push markets higher at the start of the quarter. Sentiment then changed with weak factory order and housing data from the US and with the Federal Reserve downgrade of it's assessment of the economy. However towards the end of the quarter positive momentum returned after a surprise jump in the Purchasing Managers Index.
5. Government bond yields continued to fall up to August as fears of a double dip resurfaced. This was followed by an improvement in September as these fears began to abate. The recovery in yields then faltered as the market started to price in a potential extension to US quantitative easing. Credit spreads across investment grade bonds narrowed in line with improving equity markets.
6. The UK commercial property market continued to gain in the third quarter of 2010, adding to the improvements at the start of the year. The forward looking real estate derivative market still indicates further gains for the remainder of the year.

Manager Performance

7. **Alliance Bernstein** returned 8.58% against a benchmark of 8.75% underperforming by 0.17%. Stock selection had the largest negative impact on performance and positive contributions from underweight Japanese and overweight Emerging Market positions were insufficient to counterbalance this.
8. **Marathon** returned 12.07% outperforming their benchmark by 4.05%. A significant impact on performance was the portfolios exposure to South East Asia, where stock markets continued to be strong. With regard to relative returns most value was added through stock selection.
9. **UBS** delivered a positive return of 14.69% for the quarter, outperforming against their benchmark by 1.06%. Their consistent strategy of combining strong international mega caps with cheap domestic cyclicals aided performance over the quarter.
10. **GSAM** outperformed their benchmark by 0.29% returning 4.88%. Their corporate selection strategy contributed towards performance. Underweight positions in large UK names and selections within the finance sector including Lloyds, BNP and Standard Life added to performance. Industrial names also added through positions in Marks and Spencer and Glencore.

11. **Fauchier** underperformed their benchmark by 2.60% by delivering a negative performance figure of 1.19%. A high correlation in share price movement has made it difficult for Fauchier to discriminate through long/short security selection.
12. **Ruffer** outperformed their cash benchmark by 3.29% by delivering a return of 3.47%. Factors which helped performance included allocations to Index Linked Bonds which rose globally, Gold equities which rose alongside the strength of Gold bullion and good performance from Western Equities.
13. The **UBS Property** portfolio showed a positive return of 2.06% against a benchmark of 1.90%. The best performance from the portfolio came from five funds including Henderson UK Property, Henderson UK Retail Warehouse, UBS Triton, Blackrock UK Property and Standard Life Pooled Pensions Property.
14. **SSgA** - The requirement for SSgA as a passive manager is to replicate their performance benchmark. The main account delivered a return of 10.06% underperforming against its benchmark by 0.07%, whilst the draw down provided a return of 2.81%, an outperformance of 0.34%.

Absolute Returns

	Opening Balance £,000	Appreciation £,000	Income Received £,000	Closing Balance £,000	Active Management Contribution £,000
Alliance Bernstein	52,145	4,226	250	56,621	(33)
Fauchier	24,800	(296)	-	24,504	(645)
GSAM	63,388	3,021	74	66,483	185
Marathon	47,432	5,723	-	53,155	1,875
Ruffer	48,955	1478	220	50,653	1,608
SSgA	117,218	10,301	-	127,519	9
UBS	90,380	12,496	783	103,659	1,018
UBS Property	44,054	451	458	44,963	73

15. The above table provides details on the impact of manager performance on absolute asset values. The outperformance of GSAM, Marathon, Ruffer, SSgA, UBS and UBS Property had a positive impact on the appreciation of holdings contributing £4,768k in total. Underperformance from Alliance Bernstein and Fauchier reduced appreciation by £678k.
16. **M&G** hosted an update meeting on the UK Companies Financing Fund on 15 October 2010. Speakers from M&G, the Association of Corporate Treasurers and

the Civil Service discussed the background to the market and current opportunities to invest. Following the meeting M&G canvassed the opinion of investors on how the fund should function in the future and whether any changes to its mandate would be beneficial. The result of this exercise was to leave everything in its current state. M&G will review the position at the end of the first quarter in 2011.

17. **Maquarie** - At the June Committee meeting, the infrastructure strategy was discussed and allocations to Europe, US, India and China were agreed. In October, Macquarie issued the first set of paperwork and a subscription of US\$4m was made to the Macquarie SBI Infrastructure Fund (India). Following this subscription the first draw down request was received and the funds have now been lodged with Macquarie.
18. **Private Equity** - At the end of June 2010, £28.89m (book cost) had been invested in private equity, which equates to 5.16% of the fund against the target investment of 5%. However this level still remains within the limits of the over-commitment strategy of 8%. In terms of cash movements over the quarter, Adams Street called £346k with no distributions whilst LGT called £1,248k and distributed £967k.
19. The **securities lending programme** for the quarter resulted in income of £23.6k. Offset against this was £8.3k of expenses leaving a net figure earned of £15.3k. The fund is permitted to lend up to 25% of the eligible assets total and as at 30 September 2010 the assets on loan totalled £27.6m representing approximately 13% of this total.
20. For the quarter ending 30 September 2010, Hillingdon returned 8.01%, underperforming against the WM average by 0.19%. The underperformance over the last two quarters has had a negative impact on the one year results which now show an underperformance of 2.41% against an average return of 11.0%.

FINANCIAL IMPLICATIONS

These are set out in the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

BACKGROUND DOCUMENTS

None



3rd Quarter, 2010

London Borough of Hillingdon

London Borough of Hillingdon

3rd Quarter, 2010



Executive Report

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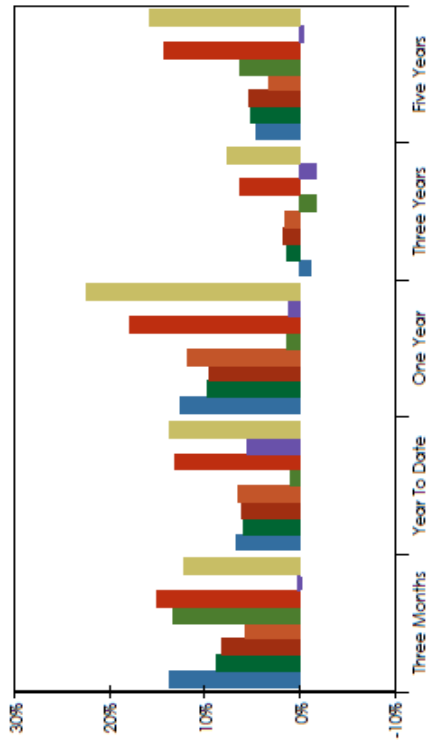
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Equity Index Performance (in GBP)

Performance History



Performance Returns%

Index	Three Months	Year To Date	One Year	Three Years	Five Years
FTSE All Share	13.6	6.6	12.5	-1.0	4.5
FT: World	8.7	6.0	9.7	1.4	5.2
FT: World ex UK	8.2	6.1	9.5	1.6	5.3
FT AW: United States	5.7	6.5	11.8	1.5	3.3
FT: Developed Europe ex UK	13.4	0.9	1.4	-1.7	6.4
FT AW: Japan	0.1	5.5	1.2	-1.7	-0.4
FT: Developed Asia Pac x Jp	15.0	13.1	17.8	6.4	14.2
MSCI Emerging Markets GD	12.2	13.8	22.3	7.6	15.7

All index returns are in GBP terms unless stated otherwise.



Following the August swoon of markets after economic "double-dip" and inflation concerns, equities finished quarter three with a strong September to regain the value lost in the second quarter. Perhaps the bears and bulls are both wrong and instead we can look forward to a "muddle-along" economy and the gradual recovery of key indicators. Non-financial corporate debt is back to a normal ratio with profits but those profits are at record levels and are bound to fall. Cash reserves as a proportion of assets are at record levels but they have to be in order to service the enormous debt. Opinions are polarised. A 2011 of decelerating economic growth when return expectations should be kept in check seems to be the safe bet. The two main headlines of the third quarter are whether or not we will soon see the second round of quantitative easing led by the US Federal Reserve and the rumbling disquiet that threatens to become all out international foreign exchange rate war. Markets remain preoccupied with the health of Eurozone economies as further damning data emerged regarding sovereign debt. Despite this, given how bad things could be the global economy has responded reasonably well on the developed side to financial stimulus and on the developing side to strong intra-regional trade. Inflationary pressures are generally weak and so a continuation of loose monetary policy remains viable. One year regional index returns remain black and largely double digit. Gold prices ended the quarter up again at a record high topping \$1,300 per ounce. The price of crude oil finished Q3 up at \$80 per barrel. The FTSE World was up by 8.7% (GBP) over quarter 3 2010 and remains ahead over 1 year, now by 9.7% (GBP).

The FTSE 100 returned 13.8% (GBP) over Q3 in stark contrast to the -12.6% return of Q2. Despite generally positive corporate earnings figures the outlook for consumer spending in the second half of the year remains uncertain. The Chancellor announced prior to his emergency budget that he is seeking unconfined growth for the future of the British Isles stating that Britain should never again hit "its entire fortunes to the City of London". Adam Posen, adviser to the BoE warned that the UK faces years of sluggish growth, high unemployment and falling prices unless further stimulus is provided soon. The Bank of England MPC voted 8:1 to hold interest rates at current lows and unanimously to maintain quantitative easing at £200 billion. GDP forecasts for Q3 were revised down as well as forecasts for 2011 as UK exports have not rallied on the back of the weaker pound to the extent predicted. Oil & Gas and Basic Materials were the top performers over the quarter. RPI increased from Q2 and unemployment showed a marginal decrease. The FTSE All Share was up 13.6% (GBP) over the third quarter.

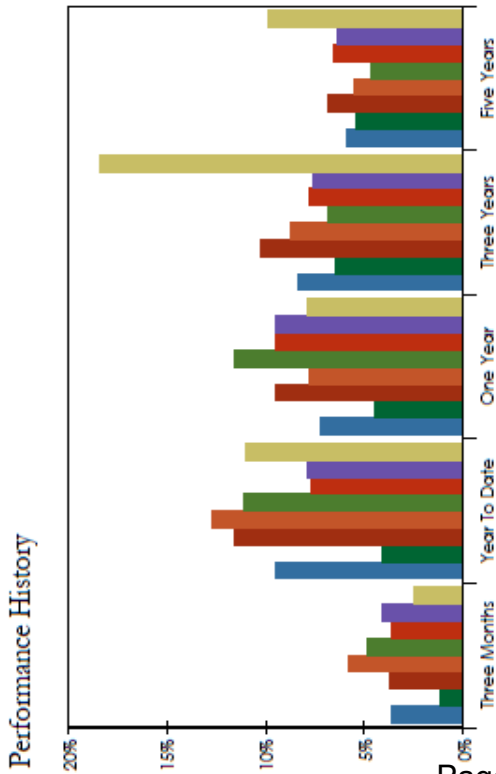
The FTSE Developed Europe ex UK index returned 13.4% (GBP) over quarter 3. The Euro continued to lose ground on foreign exchange, benefiting exports where demand prevails. Final Q2 GDP figures varied greatly across the continent; Germany impressed coming in above the original estimate, France and Italy expanded; Spain and Portugal stagnated and Greece contracted. Sovereign debt concerns still dominate the European economy. Ireland was downgraded by S&P following the emergency aid provided to Anglo Irish Bank described by Finance minister Brian Lenihan as "too big to fail". Defensive stocks continue to outperform other sectors in down months; industrials, financials and technology stocks are not as robust. Unemployment remained stable at 10% and inflation slowed to 1.6% after a small increase mid quarter. The ECB left its main rate unchanged at 1%.

The S&P 500 recovered some of the value lost in May but equity markets are still under pressure. US economic indicators continue to disappoint; the housing market remains troubled and consumer demand unconvincing as weak figures on personal income proliferate. Despite this there was some remarkable M&A activity in the IT sector, Intel made a \$7.6 billion bid for McAfee. The second round of quantitative easing is expected soon, Ben Bernanke pledged that the central bank would provide more reviving stimulus if necessary while stating that he and his peers cannot alone address the world's economic challenges. All sectors gained; the largest increases coming in Materials, Telecoms and Industrials. Financials fared the least well of the sectors. The US unemployment rate held steady at 9.6% while 2nd quarter GDP was revised down from 2.4% to 1.6%. The federal funds target rate was maintained at its all time low of 0.25%. The FTSE US index was up 5.7% (GBP) over the third quarter of 2010.

Japanese equity markets posted the weakest results by far over the third quarter following a relatively strong first 6 months of 2010 as the Yen hit a 15 year high vs the US \$. Corporate profit outlooks were good though, especially from automotive companies and financials. Second quarter GDP was confirmed at a disappointing 0.4%. The FTSE Japan returned 0.1% (GBP) for Q3; the FTSE Developed Asia Pacific ex Japan returned 15% (GBP). The Chinese economy overtook Japan's to become the second largest in the world, despite a slowing of growth and rising inflation. Rates of GDP growth came in above expectations in a number of countries across the Asia Pacific region. However, investor confidence towards the emerging markets group is dropping on the fear of a double dip recession and lessening demand from the US, although most managers remain overweight in the asset class. Russia's worst drought in 50 years brought about higher food prices, inflation estimates jumped from 6% to 8%. Latin American equities again led the way; Chile, Argentina and Colombia all performing strongly. MSCI Emerging Markets index returned 12.2% (GBP) for the third quarter.



Fixed Income Index Performance (in GBP)



Performance Returns%

	Three Months	Year To Date	One Year	Three Years	Five Years
FTSE All Stock Index	3.6	9.5	7.3	8.4	5.9
FTSE All Stock 0-5 Yr. Gilt	1.1	4.1	4.5	6.4	5.4
FTSE All Stock 5-15 Yr. Gilt	3.7	11.6	9.5	10.2	6.8
FTSE All Stock > 15 Yr. Gilt	5.8	12.7	7.8	8.8	5.6
ML STG N-Gilt All Stocks	4.8	11.1	11.6	6.8	4.7
FTSE Index Linked	3.6	7.7	9.5	7.8	6.5
FTSE Index Linked 5+ yrs	4.1	7.9	9.5	7.6	6.4
JPM CBI Global	2.5	11.0	7.9	18.5	9.8

All index returns are in GBP terms unless stated otherwise.



Northern Trust

The third quarter ended with the theme of a second phase of quantitative easing looking increasingly likely. In the US, the US Federal Reserve indicated more stimulus in the form of additional asset purchases due to continuing concerns – the fragile housing market, unemployment and the continuing downward trend in core prices raising fears of deflation. While in the UK, overall weak economic data for Q3, 2010 is of concern as the Coalition Government is set to outline £83bn of cuts in its Spending Review in October. With fiscal policy being tightened and interest rates already very low, QE is the remaining option for loosening policy. The continuing strength of the yen despite the Bank of Japan's (BoJ) intervention in the FX markets, coupled with Japan's desire to eliminate deflation saw the BoJ announce a "comprehensive monetary easing" package at the end of the quarter. The overnight call rate has been lowered to a range of 0.0% to 0.1% while planning to push down longer term interest rates through a ¥5trn asset purchase programme. By way of contrast in Europe, the ECB's strategy seems to be one of gradual exit from its accommodative policy stance over the next year.

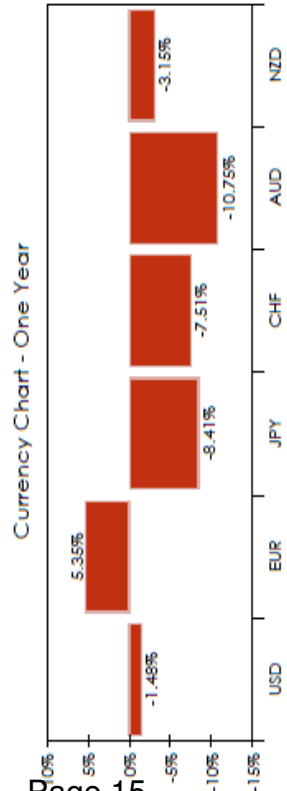
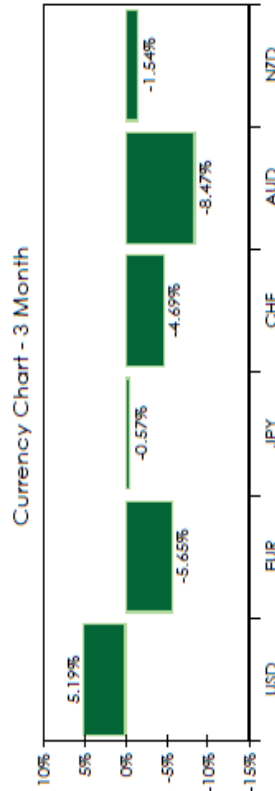
In the UK following the emergency budget in June, the forthcoming government Spending Review in October which will detail £83bn of public spending cuts has weighed on business confidence. The UK manufacturing purchasing manager survey (PMI) for September indicates slowing growth at 53.4, the weakest level of growth since September 2009. The National Institute of Economics & Social Research (NIESR) estimate of quarterly GDP came in at 0.5%, considerably down from 1.2% for the June quarter. The BoE quarterly inflation report in August revised downwards its forecasts for UK growth citing that constrained bank lending and questions about recovery in the economies of Britain's main trading partners posed risks to growth while also raising its forecast for inflation over the same period. Unsurprisingly the Bank of England (BoE) continues to maintain the base rate at 0.5% and the Asset Purchasing Facility (APF) at £200bn, however the September MPC meeting minutes noted that 'the probability that further action would become necessary to stimulate the economy...had increased'. Fading confidence in the global recovery saw the 10 year gilt yields drop sharply in August to a 16 month low of 2.68 down from 3.35 at the start of Q3, closing September at 2.95. The FTSE All Stock Gilt closed up at 3.6% (GBP) for the quarter, while the ML Sterling Non Gilt returned 4.8% (GBP).

In the euro-zone, concerns about the health of the banking sector and the weak fiscal positions of some peripheral countries under focus have caused volatility in government bond markets. In Ireland, the need to inject additional government bail-out funds into banks along with continued fears over the health of the economy, led to a substantial widening in the 10 yr government bond spread over the benchmark German 10 yr bund, from 300bps at the end of Q2 to 445bps at the end of September. Economic indicators for the euro-zone are mixed. Boosted by exports and investment, the euro-area GDP for Q2 rose by 1.0%, led by Germany with an exceptional 2.2% and France (0.6%). Both the GfK consumer and the Ifo business confidence surveys in Germany rose over the quarter, evidence that the strength of the country's industrial export-led recovery was feeding through into the consumer sector. Unemployment in Germany has fallen to its lowest level since 1994, however deficit economies like Greece, Ireland, Portugal and Spain have seen unemployment jump into double digits in the past year. Unemployment for the euro-zone as a whole has remained stubbornly at 10.1% since May. As fiscal consolidation plans and austerity measures start to kick in, growth in the second half of 2010 is expected to be considerably slower than that indicated in Q2. As a result the ECB is expected to hold the main refinancing rate at 1.0% well into 2011. The ITraxx Europe 5yr index, representative of 125 investment grade entities across 6 sectors saw spreads contract from 128.71 at the beginning of July to 105.68 at quarter end. The JPM European Govt Bond index returned 1.8% (EUR) while the Barclay Capital Global Aggregate Credit index returned -3.0% (EUR) for the 3rd quarter.

The meeting of the Federal Reserve Open Market Committee (FOMC) in September highlighted a shift in focus from growth and unemployment and toward deflation. The main change in the Fed's outlook was that its view was now "at a level somewhat below that desired" and that more quantitative easing was possible. The interest rates target was held at 0 – 0.25%. Inflation in the US fell slightly, to an annual 1.1% in August, from 1.2% in July. The September Manufacturing ISM report reported a PMI reading of 54.5, still expanding but at a slower rate compared to August's reading of 56.3. Expectations of more credit easing measures saw gains across the US Treasury yield curve. The 10 year Treasury yield closed the quarter at 2.52% down from 2.96% the previous quarter. For the quarter, the JPM US Govt Bond index returned 2.8% (USD) while the Barclay Capital US Aggregate Corporate Bond index returned 4.7% (USD).



Currency Performance (in GBP)



Currency Returns%

	Three Months	Year To Date	One Year	Three Years	Five Years
United States dollar	5.19	-2.45	-1.48	-8.56	-2.31
European Union euro	-5.65	2.52	5.35	-7.19	-4.80
Japanese yen	-0.57	-13.28	-8.41	-19.20	-8.41
Swiss franc	-4.69	-8.10	-7.51	-14.51	-7.86
Australian dollar	-8.47	-9.83	-10.75	-11.55	-7.06
New Zealand dollar	-1.54	-3.53	-3.15	-7.66	-3.49

All index returns are in GBP terms unless stated otherwise.



The Chinese government has taken some steps to address its currency policy. In June, China pledged to let the yuan trade more freely against the dollar. Since then it has advanced about 2% against the US currency. The US has pressed for China to do more to allow the yuan to appreciate. The House of Representatives voted 349 to 79 in favour of a bill that treats undervalued currencies as illegal export subsidies, which could pave the way for trade sanctions on China. At nearly 70 per cent of GDP, consumption in the US is very high. The US needs fiscal stimulus enhancing competitiveness rather than quantitative easing that puts upward pressure on all currencies other than the renminbi. The yen pulled back from a 15-year high against the dollar, notching up its biggest daily fall this year as Tokyo surprised investors by intervening to stem gains in its currency for the first time since 2004. The eurozone sovereign debt crisis and fears of a double-dip recession in the US have driven recent haven demand for the yen. The VIX volatility index ended the quarter at 23.70, down from 34.54 at the beginning of the quarter showing a shift towards risk aversion.

In the UK, the consumer price index has remained above 3% for the 6th consecutive month and has continued to sit above the Bank of England's 2% target for almost a year. This has prompted David Miles, the Bank of England's rate setter to warn that inflation was uncomfortably high. Recent economic data has proved disappointing with the purchasing managers' index (PMI) showing a slowdown while public spending cuts are expected to curb activity and economic growth. Opinion is split, but some in the Bank of England's Monetary Policy Committee are in favour of further quantitative easing if Britain is to avoid a Japanese-style stagnation.

In the UK, despite the worst recession of the postwar period, employment has deteriorated by much less than in the downturns of the 1980s or 1990s. Sterling closed the quarter down against the Euro by -5.7% and the Yen by -0.6%, however was up against the US dollar by 5.2%.

In the US, the housing market continues its weak state with new home sales flat and prices falling in a worrying sign for the economy. The US sees unemployment close to its postwar high. It has shed over 200,000 jobs since June 2010. Even though there has been an increase in private sector jobs, this was more than offset by the laying off of government workers. The unemployment rate holds steady at 9.6%. Consumer confidence, as measured by the Conference Board, tumbled far more than expected this month, from 53.2 in August to 48.5 in September, its lowest level since February 2010. The rise in the US trade deficit to \$289bn during January to July compared with \$204bn during the same period in 2009 was largely due to a worsening trade position with China.

USD had fallen to under 82YEN during the quarter (for the first time since 1995) and closed the quarter at 83.5YEN. The dollar closed the quarter falling against the Pound, Yen and Euro by 5.2%, 5.8% and 10.8% respectively.

In the Euro area, consumer confidence was up slightly with the German consumer confidence hitting the highest levels for more than two years as the country's economic recovery broadens beyond its export-led industrial sector. Germans have become less worried about unemployment than at any time in the past two years, triggering a surge in consumer confidence in Europe's largest economy that could help the continent withstand a slowdown in global growth.

The European Central Bank is still looking to phase out emergency support for the eurozone financial system, Jean-Claude Trichet, its president, has made clear. The rising currency makes it even more painful for Europe's troubled states to control their finances. The Bank said there is still a risk that the Eurozone's debt problems could again spill over into the financial sector and that many institutions still rely too much on funding from the ECB.

At the end of the quarter, ratings agency Moody's cut Spain's credit to Aa1 from AAA, removing the last of its highly-valued triple-A ratings but saying it did not expect to cut again soon thanks to efforts at fiscal reform. Spain and Ireland have seen sharp increases in unemployment while the jobless in France and Italy have increased much less.

The Euro ended the quarter gaining against the US dollar, Sterling and Yen at 10.8%, 5.7% and 5.1% respectively.



Scheme Performance

During the third quarter of 2010 due to equity market rallies and continued gains in fixed income instruments London Borough of Hillingdon managed to re-coup most of the previous quarter's losses with a 8.01% return, however on a relative basis this was still -1.10% behind the Total Plan benchmark return of 9.21%.

Despite effective currency management providing a positive effect of 1.06%, mainly down to underweighting the weak US Dollar (adding 95 basis points) and overweighting the strong Euro (accruing 42 basis points), this was dragged down by both asset allocation (-0.41%) and Stock selection (-1.83%) effects. For the allocation decisions, this time underweighting North America led to the biggest single loss of 71 basis points as in local terms the US markets performed well. The UK market also had a good quarter and again a slight underweight caused a relative loss to the fund of 30 basis points, these effects couldn't be turned around by the overweighting of Continental Europe (contributing 58 basis points), which like most equity markets was also a good performer. Within the selection effect the main driver was decisions in Europe ex UK (-0.98%), while stock picking in the UK market (-0.50%) also detracted from the performance.

With this quarter being the fifth in a row for underperforming, year to date (-2.13%) and 1 year (-2.89%) figures are behind their targets in relative terms. Looking at the one year results stock selection seems to be the main cause of this underperformance with an effect of -2.32%, combined with a detrimental effect for currency of -1.06%, while asset allocation redeemed 49 basis points. By far the biggest factor in this time period is stock picking in the UK, the Funds return of 5.90% against the market of 12.49% coupled with the fact that a third of the portfolio is invested in this segment, this leads to an effect of -2.03%. This picture is repeated in selection effects across all equity segments, accumulating in the Overseas group detracting -1.14%, which is only slightly offset by some good selection of Corporate Bonds producing positive 1.04% effect. However it is this segment that is the main factor in the negative currency effect with -1.38%. For longer periods with just one quarter outperforming in the last three years, the Fund remains below the Total Plan benchmark in all time frames, which means since 4th quarter 1995 the Fund's return of 6.28% is 42 basis points behind the benchmark of 6.73%.

Manager Performance

Alliance Bernstein

During the first quarter since the restructure Alliance Bernstein returned 8.58% versus the benchmark of 8.75%, giving a relative return of -0.15%. The overriding factor behind this underperformance is the stock selection within the Continental Europe region detracting -0.54%, which could not be rectified by the underweighting of the poor performing Japanese market (+0.28%) and the overweighting of the Emerging Markets (+0.21%). Underperformance is seen in all the longer time periods, with relative returns of -4.77% and -5.81% in the 1 and 3 year time periods respectively. Since inception (2nd Quarter 2006) the fund has generated a -1.62% return, while correspondingly the benchmark achieves 2.38% for the same period.

Goldman Sachs

For the latest quarter the Goldman Sachs portfolio achieved 4.88% beating the benchmark return of 4.59% by 0.28%. This makes it 5 out of the last 6 quarters that the fund has demonstrated outperformance, meaning the year to date and 1 year time periods remain ahead of the benchmark. However, the run of underperformance between 1st quarter 2008 and 1st quarter 2009 continues to drag longer time periods, with the since inception return of 6.19% being 58 basis points below the benchmark target.

SSGA

SSGA returned 10.06% over the last three months which is slightly below the benchmark return of 10.13%, giving a relative return of negative 6 basis points. Longer time periods show the fund tracking the index almost exactly, with the return since November 2008 of 20.67% showing a relative return 6 basis points above the benchmark.

SSGA Drawdown

During the 3rd quarter the SSGA Drawdown fund beat it's benchmark by 34 bas is points, achieving a 2.81% return versus 2.47%. This continues the series of five quarters of outperformance leading to the inception to date return of 9.13% being 0.58% ahead of its benchmark on a relative basis.



Manager Performance

Manager Performance

UBS

After three quarters of underperformance UBS were able to generate a positive relative return of 0.93% by achieving 14.69% against the FTSE All Share's 13.63%. Despite underweighting one of the better performing sectors Basic Materials (-0.22%), the main factors behind the good performance this quarter were the stock picking in Oil & Gas (0.69%), Financials (0.54%), Industrials (0.49%) and Health Care (0.40%).

The positive effects this quarter were not enough to correct the year to date and 1 year figures, despite positive returns of 4.41% and 7.97%, they were still -2.10% and 4.02% behind the benchmark on a relative basis. The 1 year result can be mostly explained by stock selection in Consumer Goods (-0.94%) & Services (-1.43%), Financials (-0.78%) and Health Care (-0.52%), while the most notable asset allocation decision was underweighting Basic Materials (-0.64%) which has been one of the best performing sectors of the last 12 months.

In longer time periods the underperformance is still seen in the 3 and 5 year figures, with relative returns of -1.91% and -2.10% respectively. However, the inception to date return of 9.98% outperforms by 0.96%, when compared to the benchmark of 8.93% for the same period.

UBS Property

UBS Property attained a 2.06% over the latest quarter, which against the benchmark of 1.90% delivers a 16 basis point outperformance. The relative return in the fourth quarter 2009 (-3.74%) is still the main driver for the underperformance of the fund over all the longer time periods. Since inception the return from property investments is -3.44% versus -2.69% an underperformance of the benchmark by 78 basis points on a relative basis.

M&G Investments

For the third quarter M&G Investments obtained a 1.09% return on an absolute basis. At present no benchmark has been applied to this mandate.

Ruffer

For the first full quarter of investment Ruffer produced a 3.47% return which is an outperformance of 3.28% against it's assigned benchmark of the LIBOR 3 Month GBP, which returned 0.18%.

Marathon

For the latest quarter Marathon has achieved an outperformance of 3.74% returning 12.07% against it's benchmark of 8.02%.

Fauchier

During the third quarter Fauchier returned -1.19% against the benchmark of 1.41%, as a consequence they were the largest underperforming portfolio showing a -2.57% relative return.



Active Contribution

By Manager

	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 7/10	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 8/10	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 9/10	Active Contribution 3Q 2010
Alliance Bernstein	3.48	3.35	0.14	0.13	74,039.84	-2.50	-1.78	-0.73	-0.74	-384,835.69	7.62	7.13	0.49	0.46	277,483.94	-33,311.91
Goldman Sachs	0.17	0.10	0.07	0.07	42,651.09	4.42	4.47	-0.05	-0.04	-30,373.75	0.27	0.01	0.26	0.26	172,676.49	184,953.82
SSGA	4.16	4.18	-0.02	-0.02	-24,447.54	0.15	0.19	-0.04	-0.04	-40,109.71	5.51	5.51	0.00	0.00	1,509.01	-63,048.24
SSGA Drawdown	0.53	0.47	0.06	0.06	12,459.96	2.40	2.10	0.29	0.29	62,355.31	-0.12	-0.11	-0.01	-0.01	-2,841.27	71,974.00
UBS	7.96	6.89	1.07	1.00	1,029,353.92	-0.66	-0.22	-0.44	-0.44	-424,859.83	6.94	6.54	0.40	0.38	413,850.45	1,018,344.54
UBS Property	0.59	0.79	-0.20	-0.20	-88,765.61	1.07	0.68	0.39	0.39	174,210.90	0.40	0.42	-0.03	-0.03	-12,845.07	72,600.21
M&G Investments	0.00	-	-	-	0.00	0.00	-	-	-	0.00	1.09	-	-	-	0.00	0.00
CGI	-0.04	0.06	-0.10	-0.10	-49,644.77	0.46	0.07	0.39	0.39	190,880.73	3.04	0.06	2.98	2.98	1,466,994.38	1,608,230.34
Marathon	3.25	3.28	-0.03	-0.03	-13,983.44	0.35	-1.90	2.25	2.29	1,081,450.60	8.17	6.63	1.54	1.45	807,257.01	1,874,724.17
Fauchier	-1.48	0.47	-1.95	-1.94	-486,272.51	0.20	0.47	-0.27	-0.27	-66,954.77	0.09	0.47	-0.37	-0.37	-91,664.30	-644,891.57

Total Fund Market Value at Qtr End: £528.6 M



Scheme Performance

	Market Value £m	% of Fund	Three Months			Year To Date			One Year					
			Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return
London Borough of Hillingdon	528.6	100.00	8.01	9.21	-1.20	-1.10	5.41	7.70	-2.30	-2.13	8.59	11.82	-3.23	-2.89
<i>By Manager</i>														
Alliance Bernstein	56.6	10.71	8.58	8.75	-0.16	-0.15	-1.51	2.95	-4.46	-4.33	1.91	7.01	-5.10	-4.77
Goldman Sachs	66.5	12.58	4.88	4.59	0.30	0.28	10.39	10.06	0.32	0.29	11.77	10.93	0.83	0.75
SSGA	106.3	20.11	10.06	10.13	-0.07	-0.06	7.35	7.33	0.02	0.02	10.98	10.99	-0.01	-0.01
SSGA Drawdown	21.2	4.01	2.81	2.47	0.34	0.34	6.21	5.62	0.59	0.56	6.48	5.87	0.61	0.58
TUBS	103.7	19.61	14.69	13.63	1.06	0.93	4.41	6.65	-2.24	-2.10	7.97	12.49	-4.52	-4.02
UBS Property	45.0	8.51	2.06	1.90	0.16	0.16	9.56	10.10	-0.54	-0.49	13.79	18.80	-5.00	-4.21
UBS Investments	0.9	0.18	1.09	-	-	-	-	-	-	-	-	-	-	-
M&G Investments	50.7	9.58	3.47	0.18	3.28	3.28	-	-	-	-	-	-	-	-
Ruffer	53.2	10.05	12.07	8.02	4.05	3.74	-	-	-	-	-	-	-	-
Marathon	24.5	4.64	-1.19	1.41	-2.61	-2.57	-	-	-	-	-	-	-	-
Fauchier	0.2	0.03	6.88	-	-	-	-2.84	-	-	-	-3.84	-	-	-
Nomura														

Total Fund Market Value at Qtr End: £528.6 M



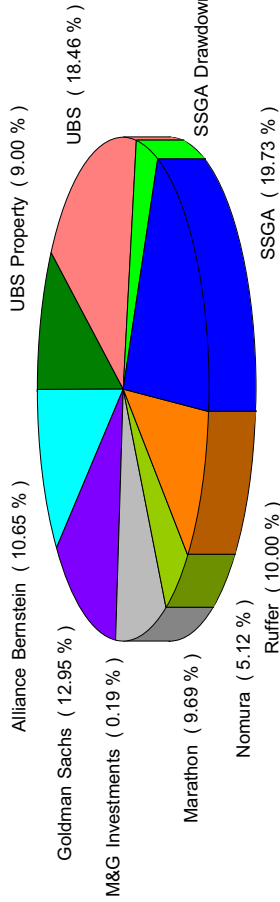
Scheme Performance

	<u>Three Years</u>			<u>Five Years</u>			<u>Inception To Date</u>					
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return
London Borough of Hillingdon	-2.18	0.95	-3.13	-3.10	3.06	5.21	-2.16	-2.05	6.28	6.73	-0.45	-0.42
<i>By Manager</i>												
Alliance Bernstein	-6.48	-0.72	-5.77	-5.81	-	-	-	-	-1.62	2.38	-4.00	-3.91
Goldman Sachs	7.73	8.75	-1.02	-0.93	7.24	7.84	-0.60	-0.55	6.19	6.81	-0.62	-0.58
SSGA	-	-	-	-	-	-	-	-	20.67	20.60	0.07	0.06
SSGA Drawdown	-	-	-	-	-	-	-	-	9.13	8.50	0.63	0.58
UBS	0.02	1.96	-1.95	-1.91	3.40	5.61	-2.22	-2.10	9.98	8.93	1.05	0.96
UBS Property	-9.64	-8.98	-0.66	-0.72	-	-	-	-	-3.44	-2.69	-0.76	-0.78
M&G Investments	-	-	-	-	-	-	-	-	1.34	-	-	-
Buffer	-	-	-	-	-	-	-	-	0.69	0.25	0.44	0.44
Marathon	-	-	-	-	-	-	-	-	8.85	4.54	4.31	4.12
Faucher	-	-	-	-	-	-	-	-	-1.19	1.41	-2.61	-2.57
Nomura	-	-	-	-	-	-	-	-	3.38	-	-	-

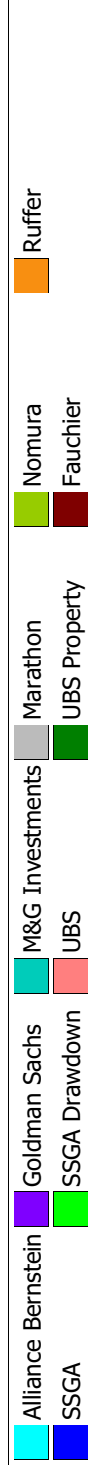
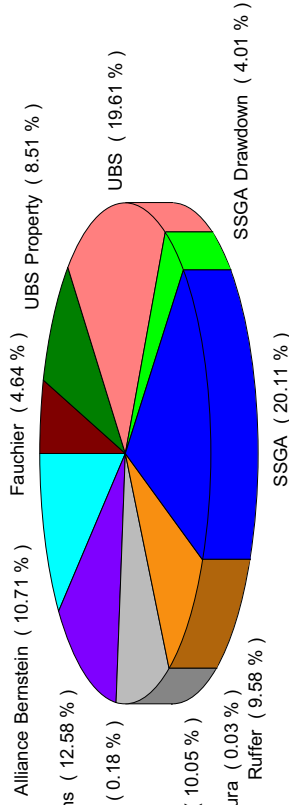
Total Fund Market Value at Qtr End: £528.6 M



Weighting at Beginning of Period



Weighting at End of Period

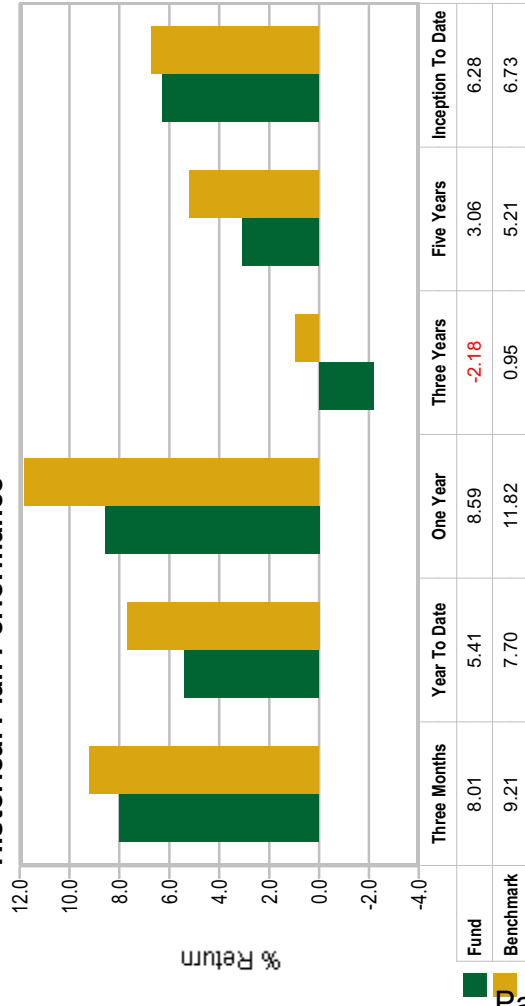


	Opening Market Value £(000)	% of Fund	Net Investment £(000)	Appreciation £(000)	Income Received £(000)	Closing Market Value £(000)	% of Fund
London Borough of Hillingdon	489,582	100.00	-154	37,421	1,791	528,641	100.00
Alliance Bernstein	52,145	10.65	-0	4,225	250	56,621	10.71
Fauchier		0.00	24,800	-296		24,504	4.64
Goldman Sachs	63,388	12.95		3,020	74	66,483	12.58
M&G Investments	924	0.19		10		934	0.18
Marathon	47,432	9.69		5,723		53,155	10.05
Nomura	25,085	5.12	-24,954	14	5	151	0.03
Ruffer	48,955	10.00		1,477	220	50,653	9.58
SSGA	96,613	19.73		9,721		106,334	20.11
SSGA Drawdown	20,605	4.21		580		21,185	4.01
UBS	90,380	18.46		12,496	783	103,659	19.61
UBS Property	44,054	9.00	-0	451	458	44,963	8.51



London Borough of Hillingdon

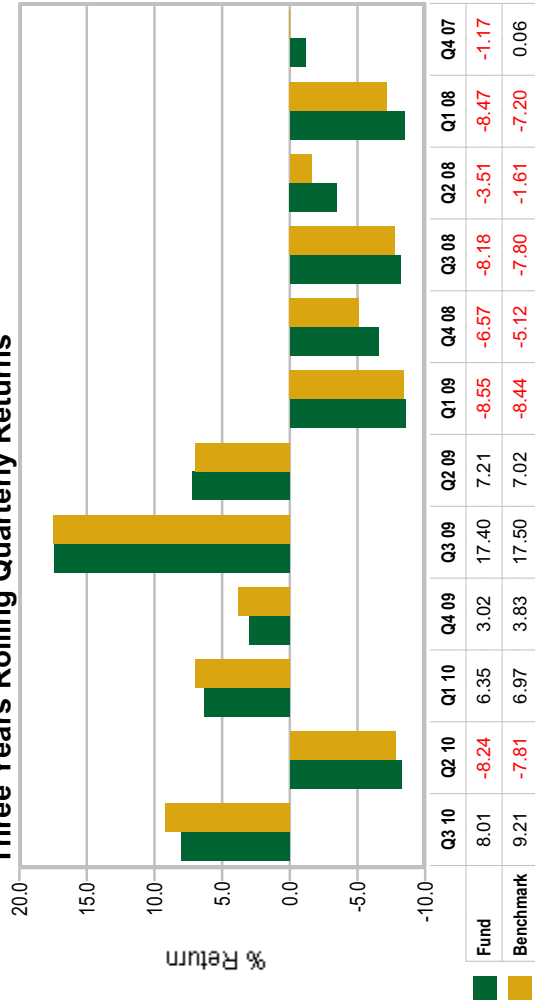
Historical Plan Performance



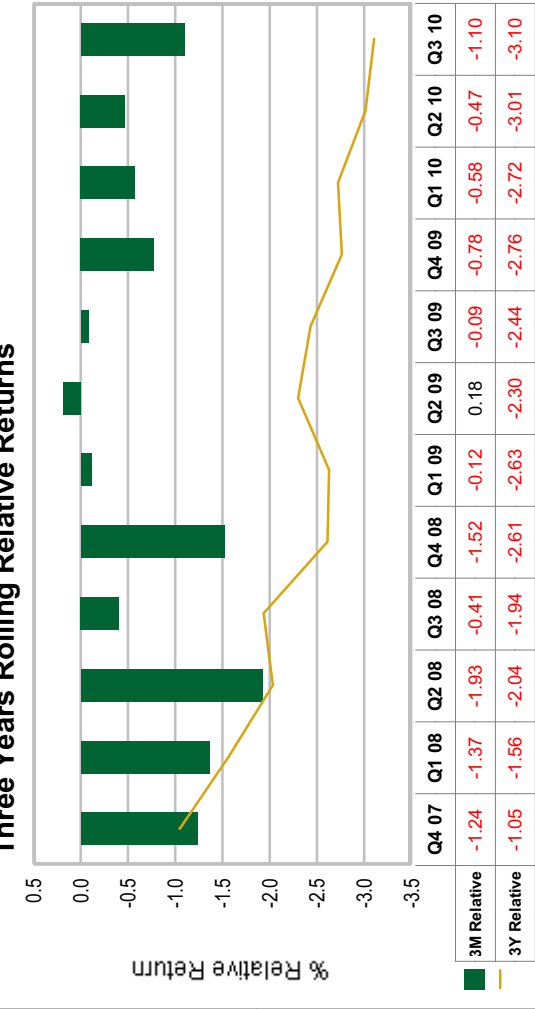
Risk Statistics - 3 years

	Fund	Bmark
Performance Return	-2.18	0.95
Standard Deviation	16.14	15.80
Relative Return	-3.10	
Tracking Error	1.35	
Information Ratio	-2.32	
Beta	1.02	
Alpha	-3.02	
R Squared	0.99	
Sharpe Ratio	-0.37	-0.18
Percentage of Total Fund	100.0	
Inception Date	Sep-1995	
Opening Market Value (£000)	489,582	
Net Investment £(000)	-154	
Income Received £(000)	1,791	
Appreciation £(000)	37,421	
Closing Market Value (£000)	528,641	

Three Years Rolling Quarterly Returns

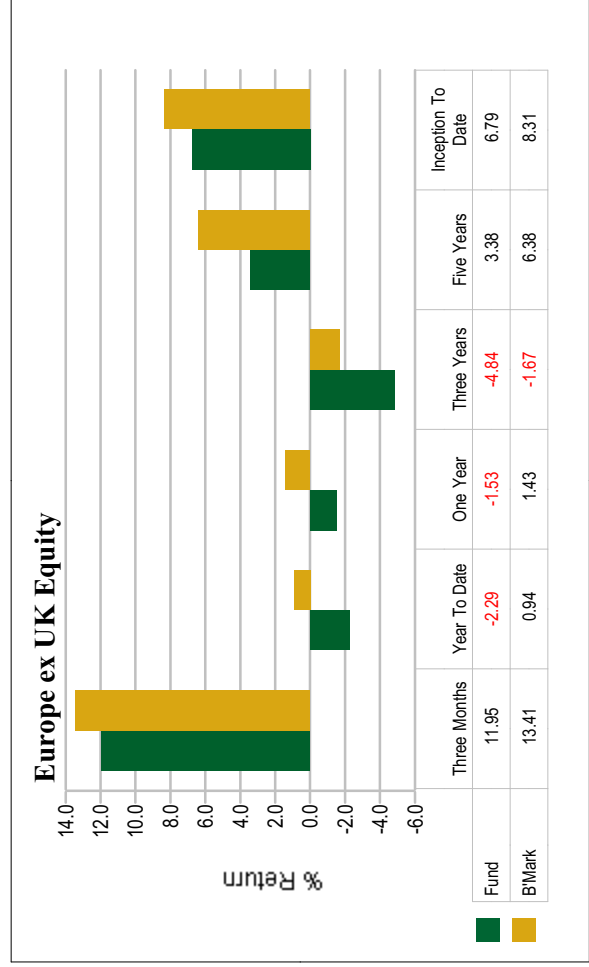
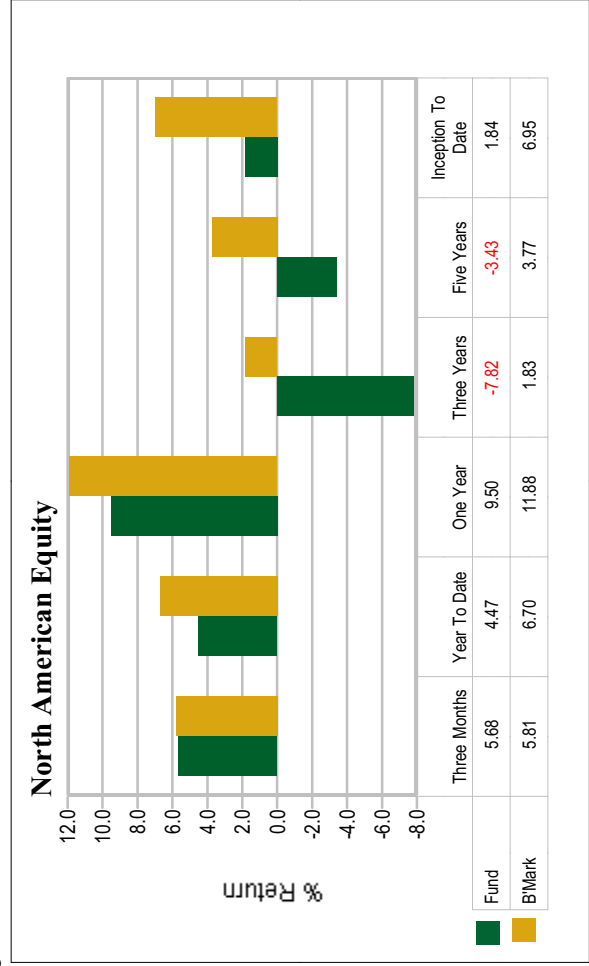
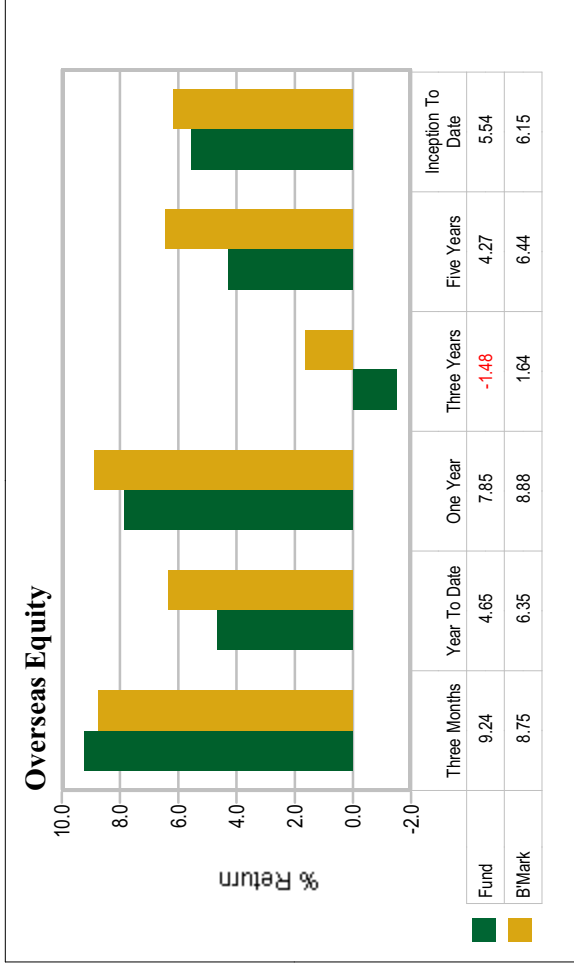
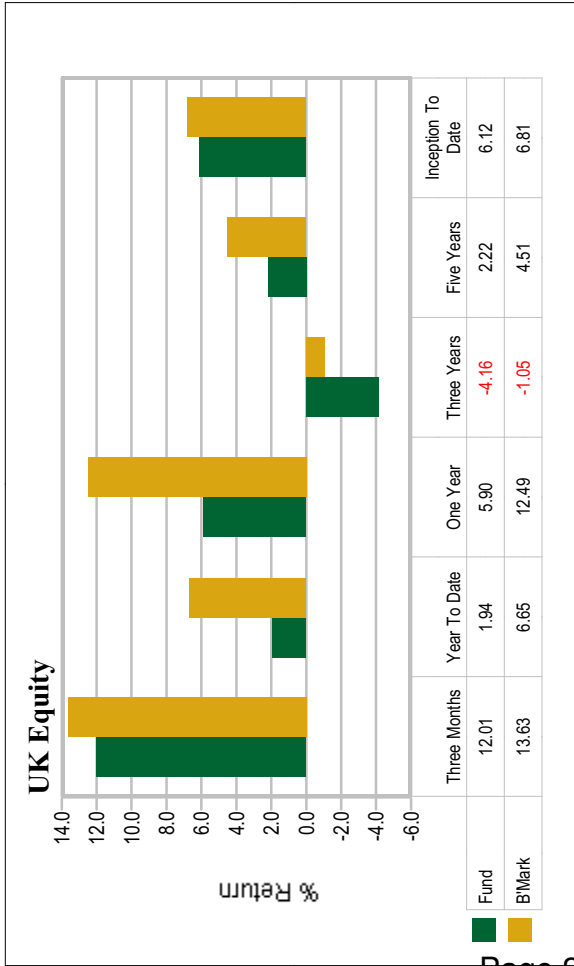


Three Years Rolling Relative Returns



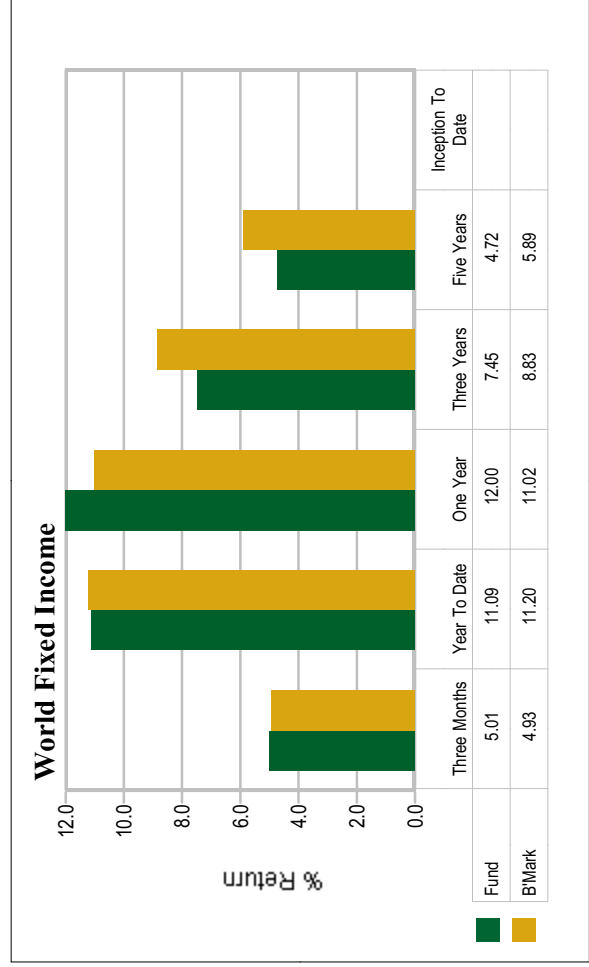
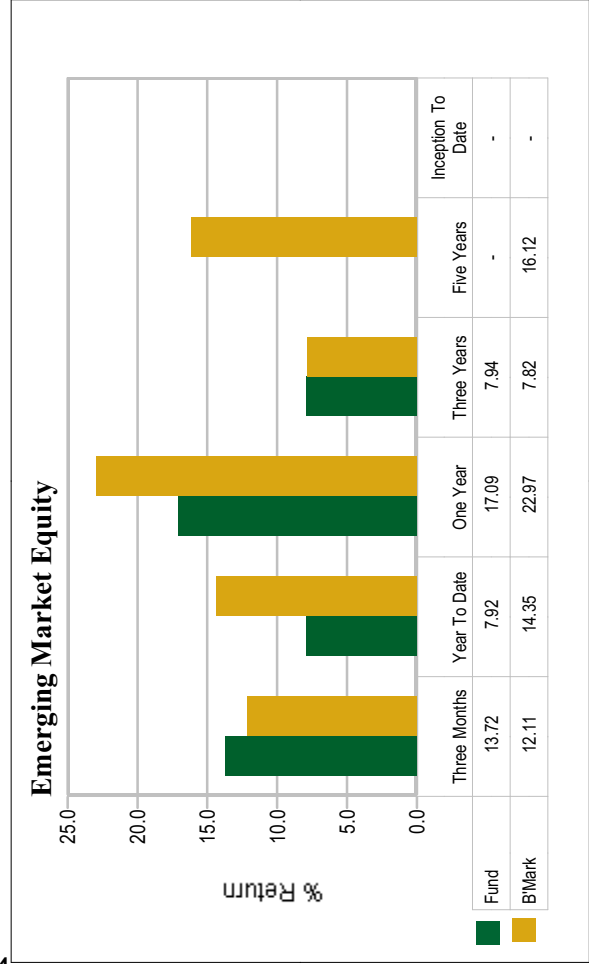
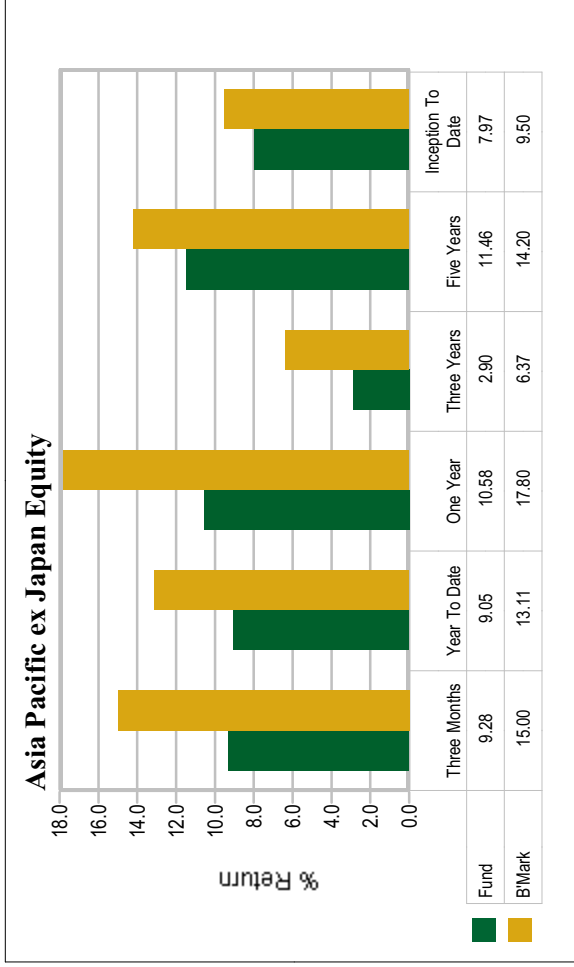
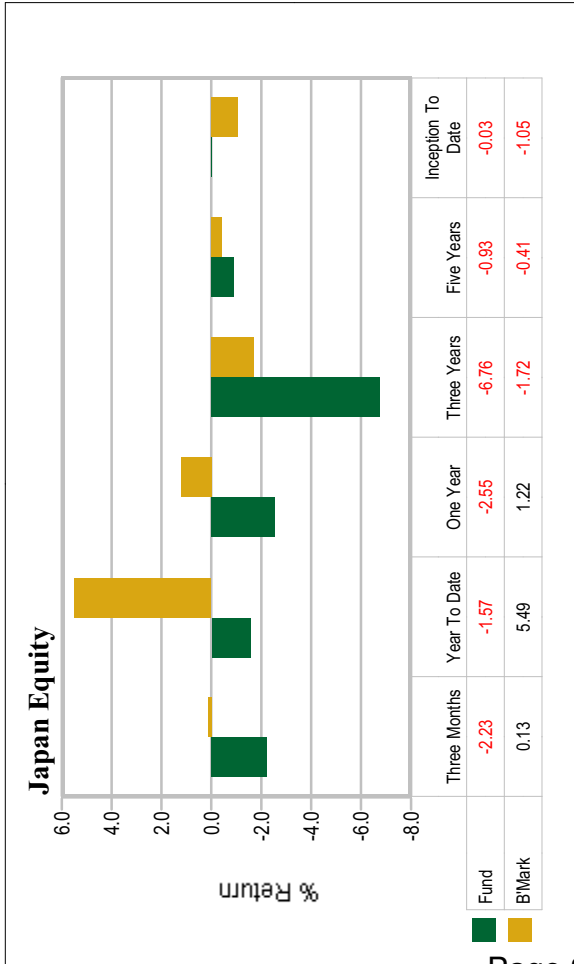


London Borough of Hillingdon



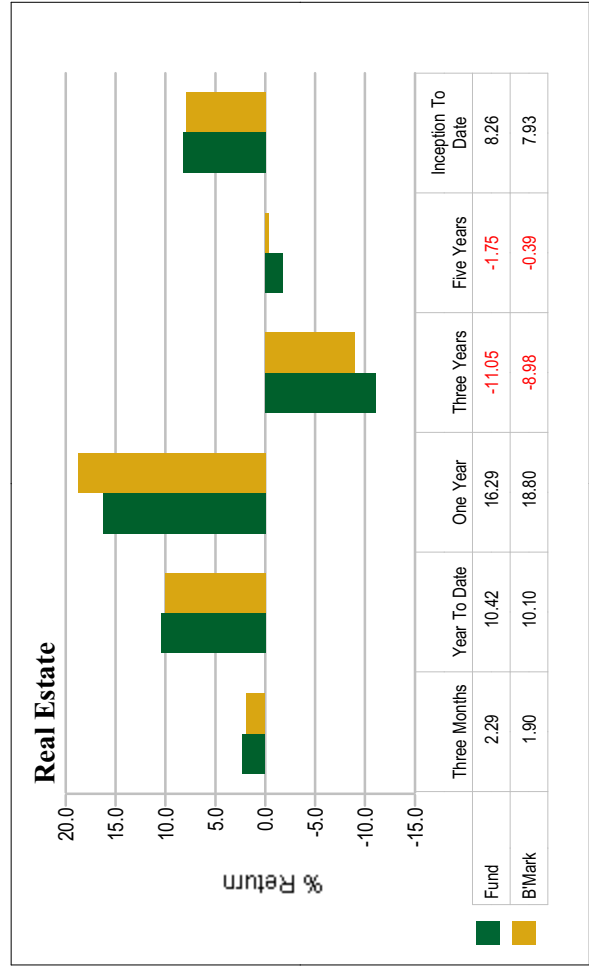
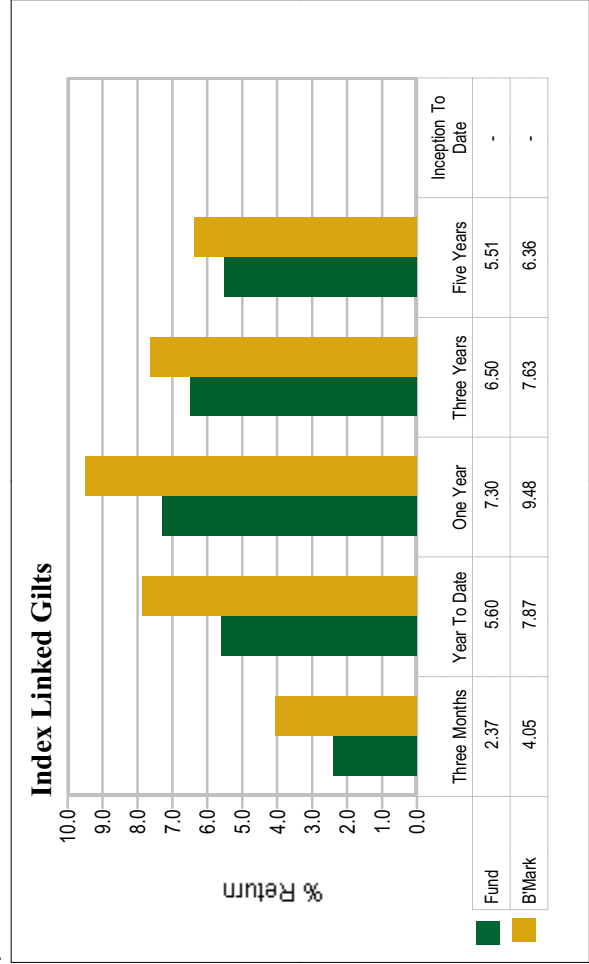
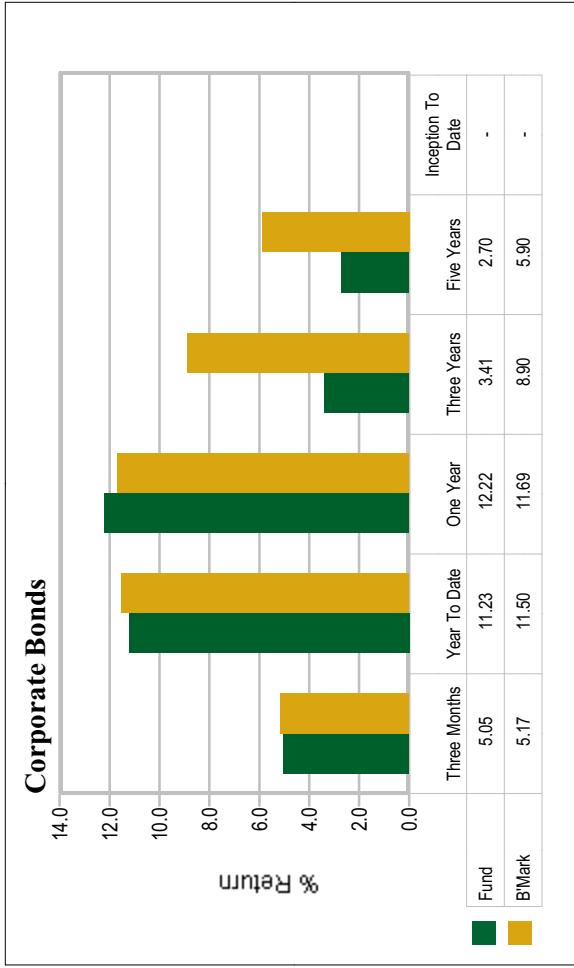
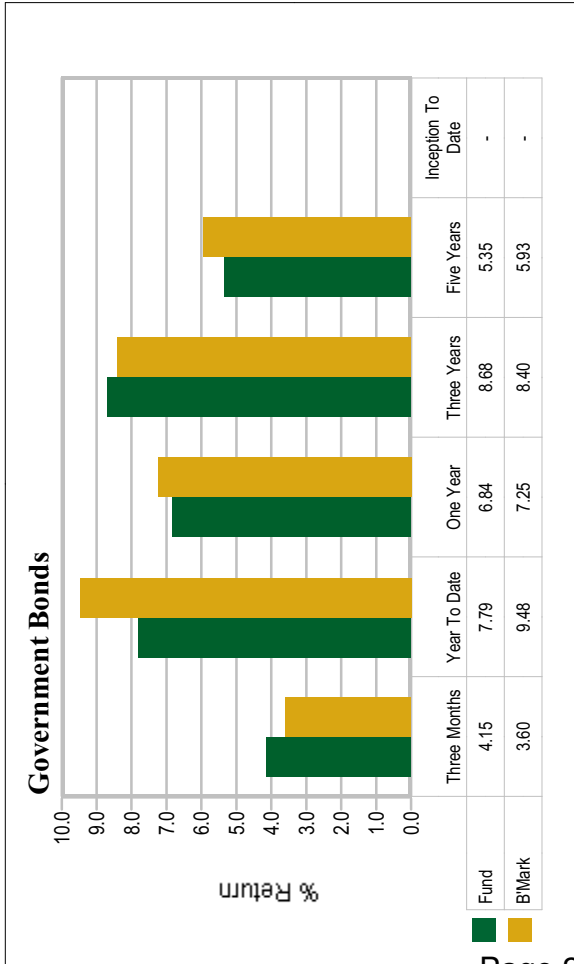


London Borough of Hillingdon





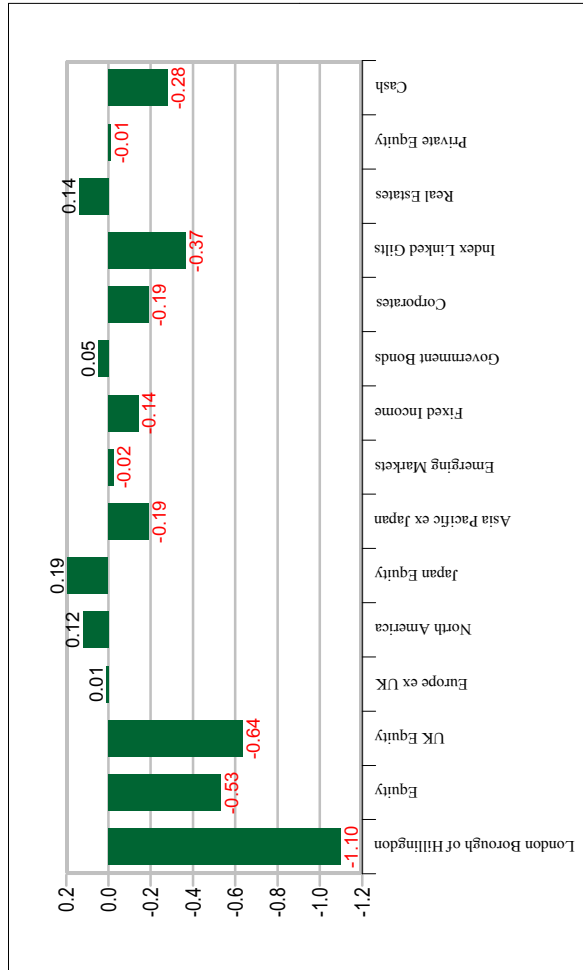
London Borough of Hillingdon



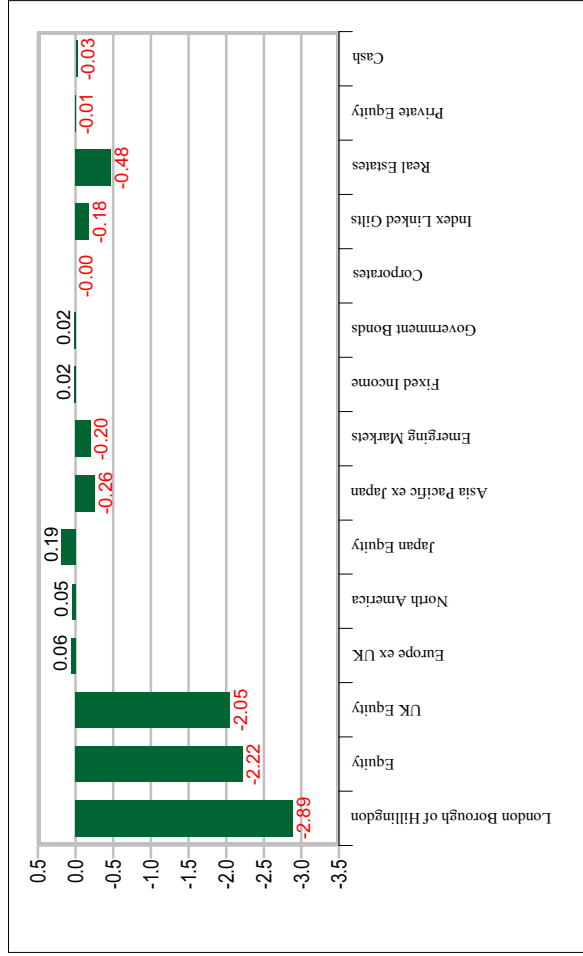


London Borough of Hillingdon

Relative Contribution - Three Months



Relative Contribution - One Year



	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	8.01	9.21	-1.10	0.03	1.06	-0.41	-1.83	-1.10
Equity	10.72	-	10.72	0.00	1.99	-0.70	-1.79	-0.53
UK Equity	12.01	13.63	-1.42	0.00	0.17	-0.30	-0.50	-0.64
Europe ex UK	11.95	13.41	-1.29	0.00	0.42	0.58	-0.98	0.01
North America	5.68	5.81	-0.13	0.00	0.95	-0.71	-0.11	0.12
Japan Equity	-2.23	0.13	-2.35	0.00	0.24	0.01	-0.05	0.19
Asia Pacific ex Japan	9.28	15.00	-4.97	0.00	0.09	-0.09	-0.19	-0.19
Emerging Markets	13.72	12.11	1.43	0.00	0.11	-0.18	0.05	-0.02

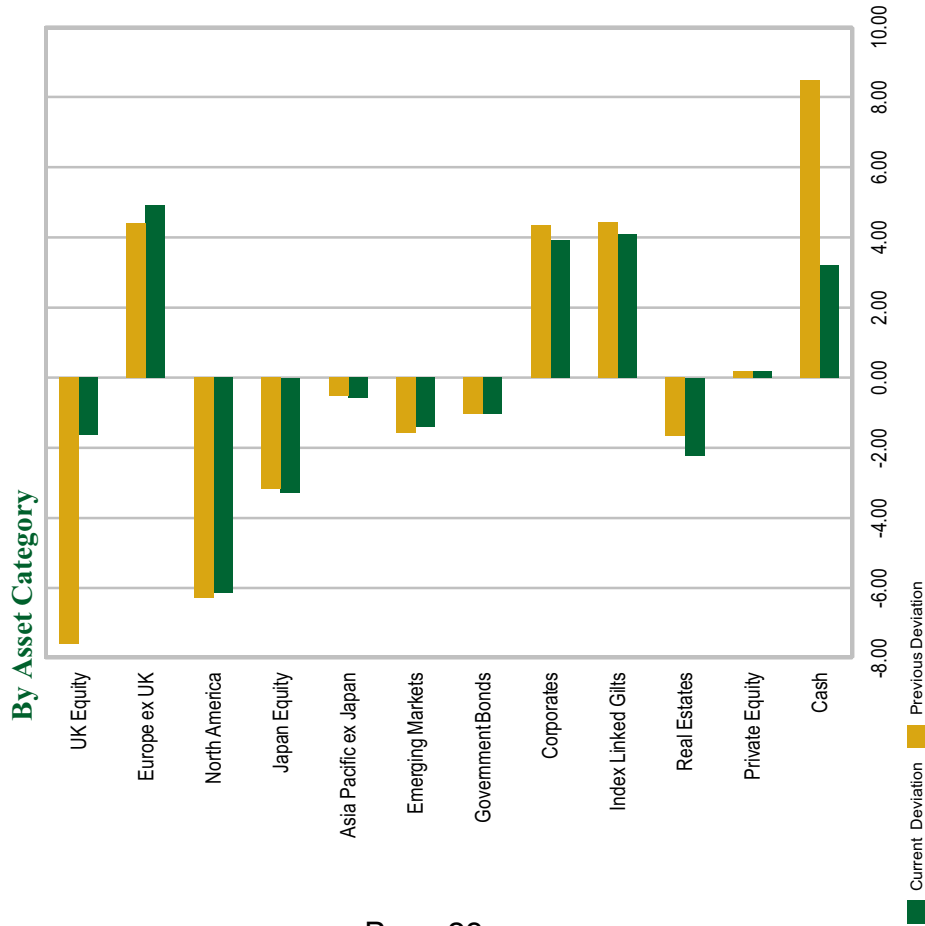
	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	8.59	11.82	-2.89	-0.03	-1.06	0.49	-2.32	-2.89
Equity	6.84	-	6.84	0.00	0.93	0.03	-3.15	-2.22
UK Equity	5.90	12.49	-5.86	0.00	0.11	-0.13	-2.03	-2.05
Europe ex UK	-1.53	1.43	-2.92	0.00	-0.15	0.75	-0.53	0.06
North America	9.50	11.88	-2.13	0.00	0.73	-0.61	-0.07	0.05
Japan Equity	-2.55	1.22	-3.73	0.00	0.02	0.22	-0.06	0.19
Asia Pacific ex Japan	10.58	17.80	-6.13	0.00	0.05	-0.06	-0.25	-0.26
Emerging Markets	17.09	22.97	-4.78	0.00	0.17	-0.15	-0.22	-0.20



	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution		Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Fixed Income	5.01	4.93	0.07	0.00	-0.29	0.17	-0.02	-0.14	Fixed Income	12.00	11.02	0.88	0.00	-1.29	0.29	1.04	0.02
Government Bonds	4.15	3.60	0.53	0.00	0.08	-0.04	0.00	0.05	Government Bonds	6.84	7.25	-0.39	0.00	0.09	-0.07	-0.00	0.02
Corporates	5.05	5.17	-0.12	0.00	-0.38	0.20	-0.02	-0.19	Corporates	12.22	11.69	0.47	0.00	-1.38	0.35	1.04	-0.00
Index Linked Gills	2.37	4.05	-1.61	0.00	-0.47	0.16	-0.06	-0.37	Index Linked Gills	7.30	9.48	-2.00	0.00	-0.53	0.37	-0.03	-0.18
Real Estates	2.29	1.90	0.38	0.00	0.14	-0.03	0.03	0.14	Real Estates	16.29	18.80	-2.11	0.00	0.14	-0.47	-0.15	-0.48
Private Equity	1.05	-	1.05	0.00	-0.02	0.00	0.00	-0.01	Private Equity	1.28	-	1.28	0.00	-0.01	0.01	0.00	-0.01
Cash	0.12	-	0.12	0.00	-0.28	0.00	0.00	-0.28	Cash	0.39	-	0.39	0.00	-0.29	0.27	0.00	-0.03



London Borough of Hillingdon

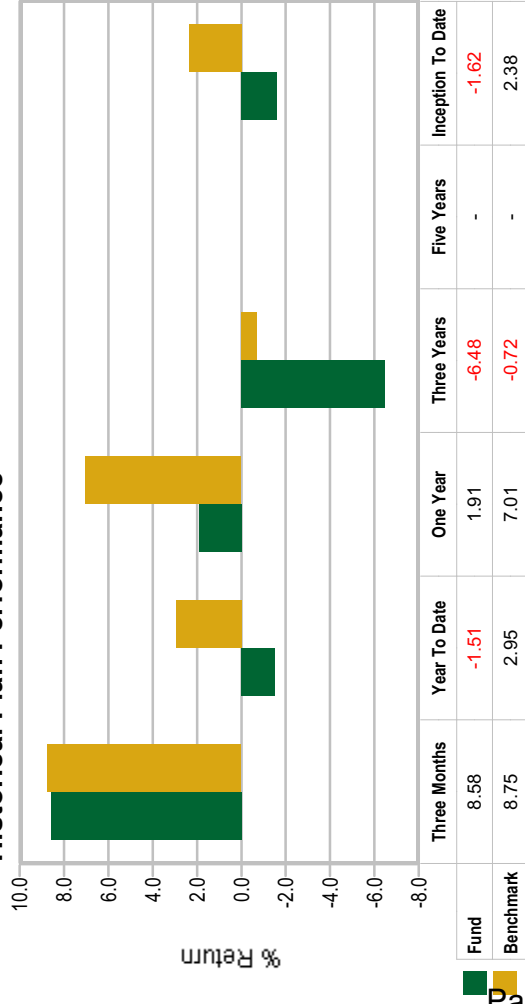


	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
UK Equity	35.19	29.24	36.84	-1.65	36.84	-7.60
Europe ex UK	15.99	15.46	11.06	4.93	11.06	4.40
North America	6.77	6.62	12.90	-6.13	12.90	-6.28
Japan Equity	2.26	2.36	5.53	-3.27	5.53	-3.17
Asia Pacific ex Japan	3.09	3.16	3.68	-0.59	3.68	-0.52
Emerging Markets	2.27	2.10	3.68	-1.41	3.68	-1.58
Government Bonds	0.54	0.55	1.58	-1.04	1.58	-1.03
Corporates	12.86	13.29	8.94	3.92	8.94	4.35
Index Linked Gilts	9.34	9.69	5.26	4.08	5.26	4.43
Real Estates	8.31	8.86	10.53	-2.22	10.53	-1.67
Private Equity	0.18	0.20		0.18		0.20
Cash	3.22	8.47		3.22		8.47



Alliance Bernstein

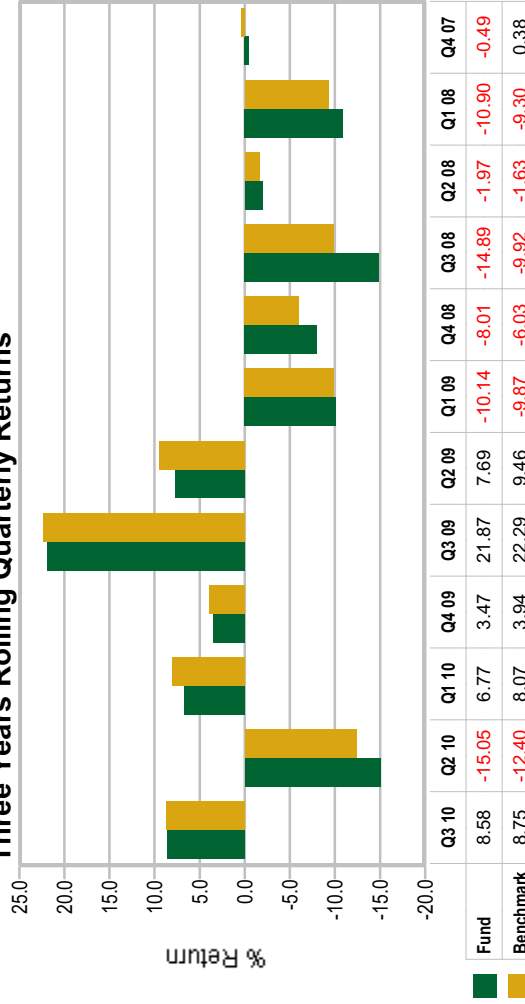
Historical Plan Performance



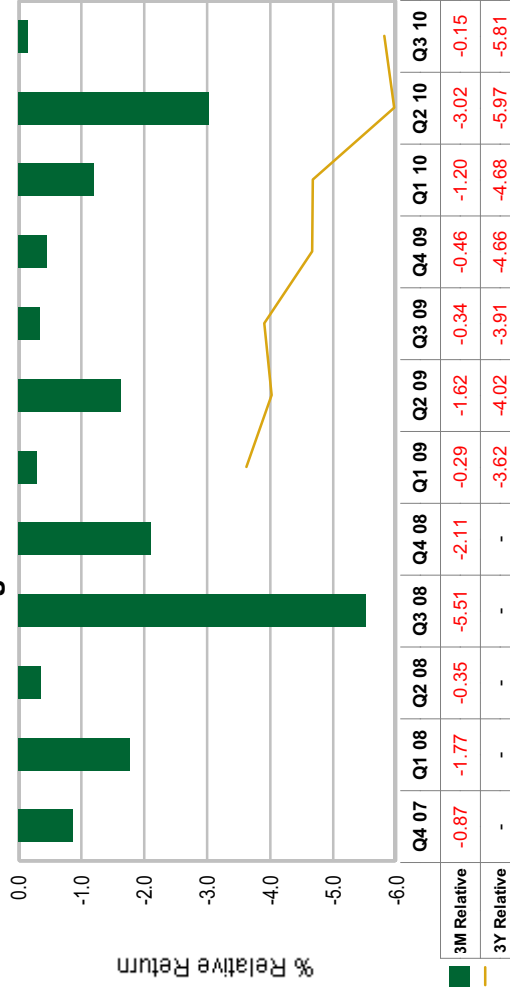
Risk Statistics - 3 years

	Fund	Bmark
Performance Return	-6.48	-0.72
Standard Deviation	21.57	20.50
Relative Return	-5.81	
Tracking Error	2.13	
Information Ratio	-2.71	
Beta	1.05	
Alpha	-5.47	
R Squared	0.99	
Sharpe Ratio	-0.48	-0.22
Percentage of Total Fund	10.7	
Inception Date	Mar-2006	
Opening Market Value (£000)	52,145	
Net Investment (£000)	-0	
Income Received (£000)	250	
Appreciation (£000)	4,225	
Closing Market Value (£000)	56,621	

Three Years Rolling Quarterly Returns

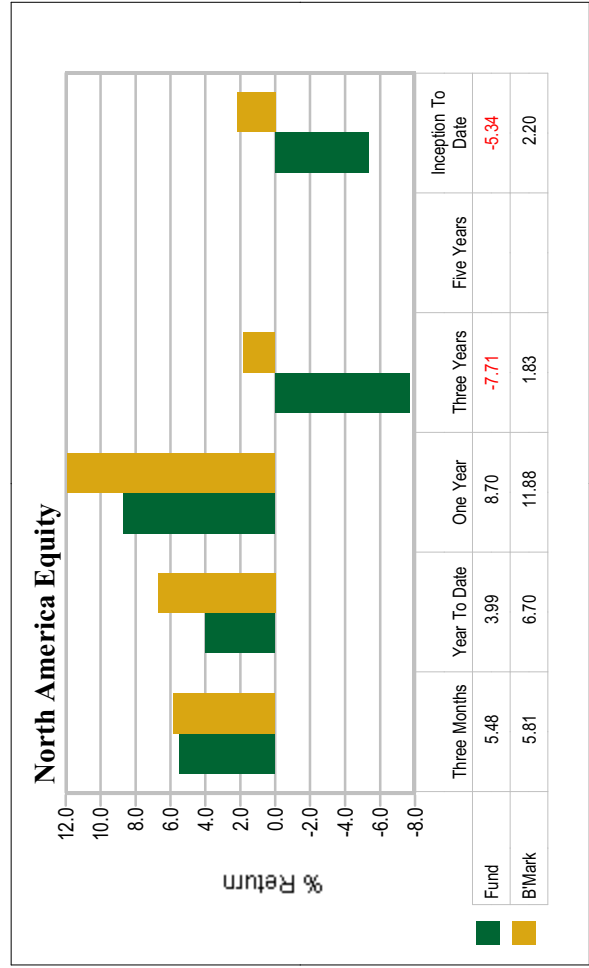
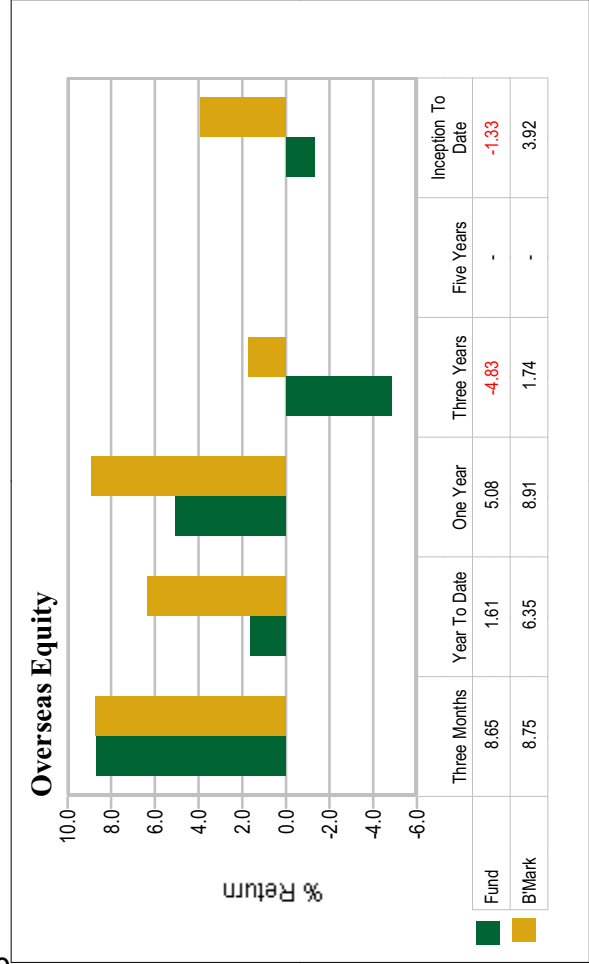
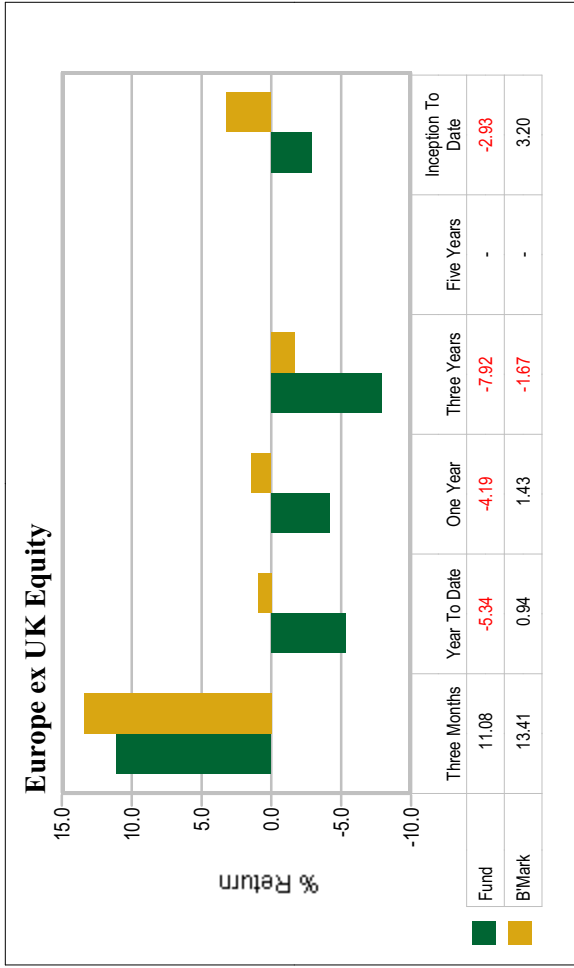
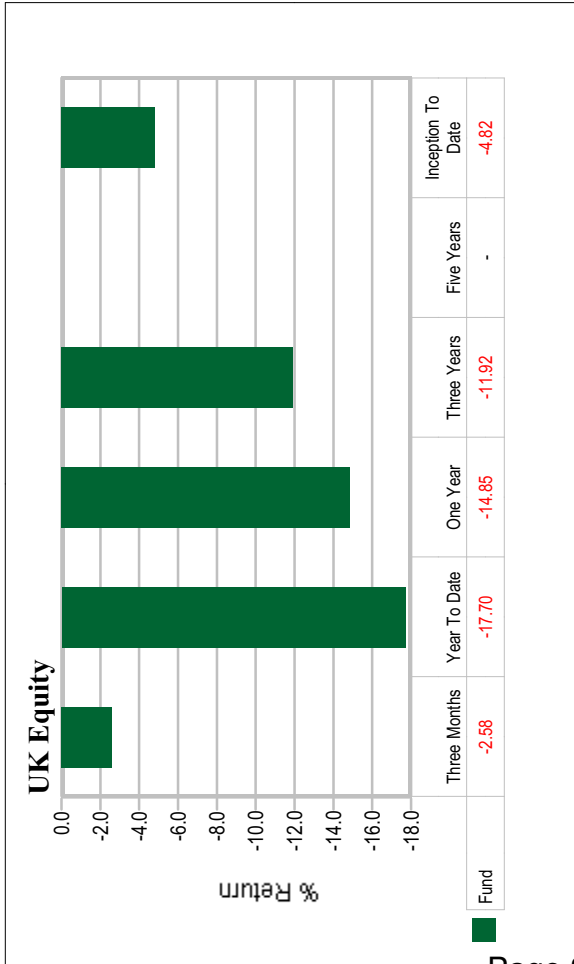


Three Years Rolling Relative Returns



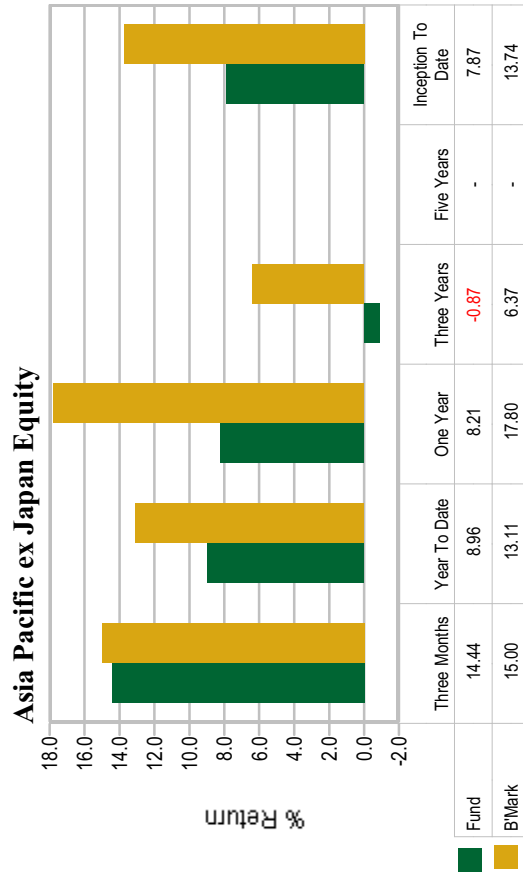
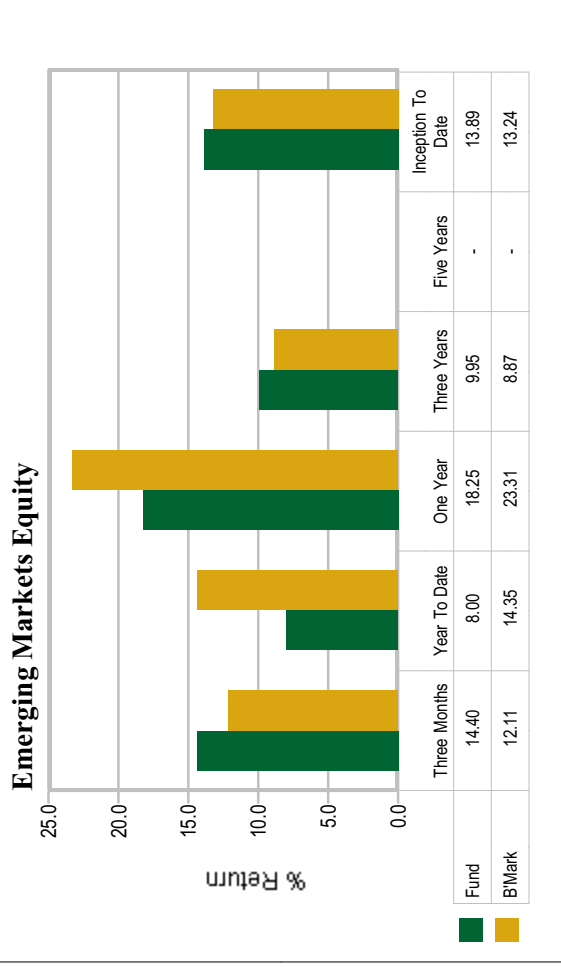
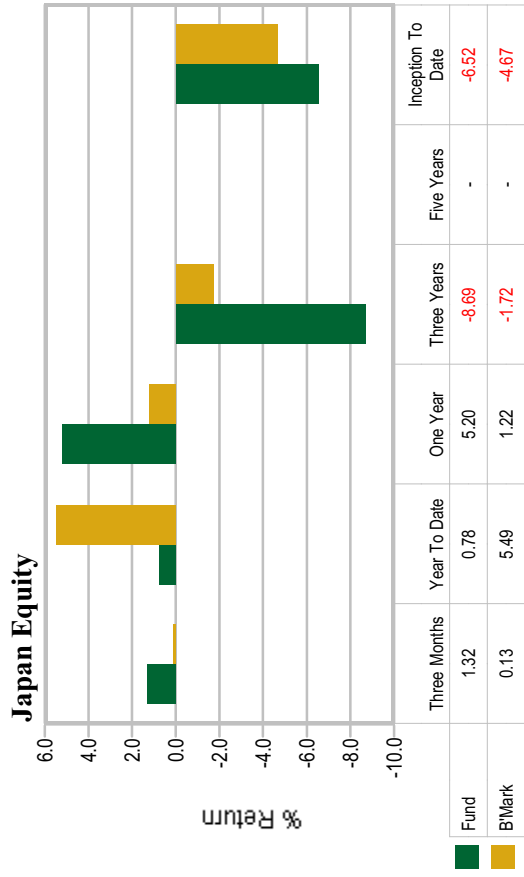


Alliance Bernstein





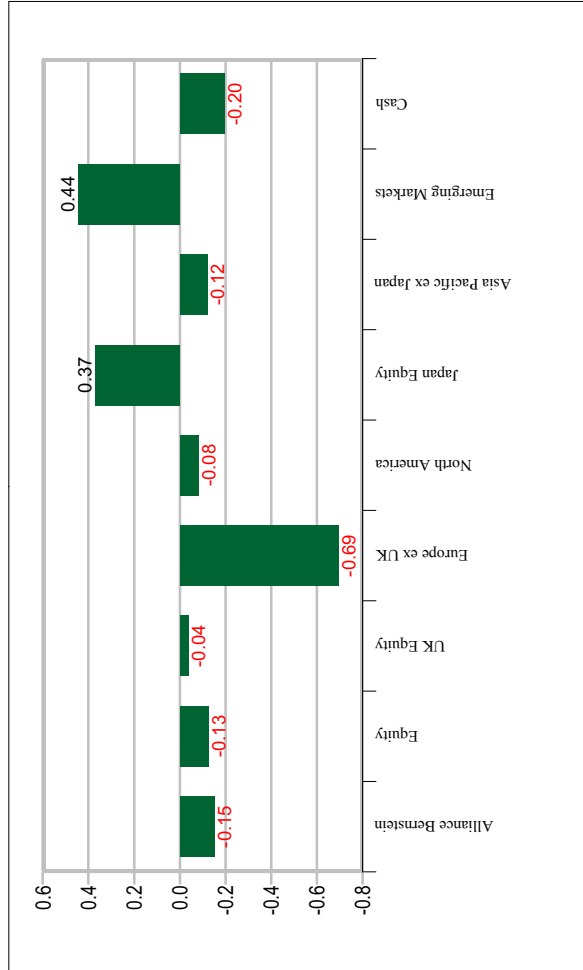
Alliance Bernstein





Alliance Bernstein

Relative Contribution - Three Months



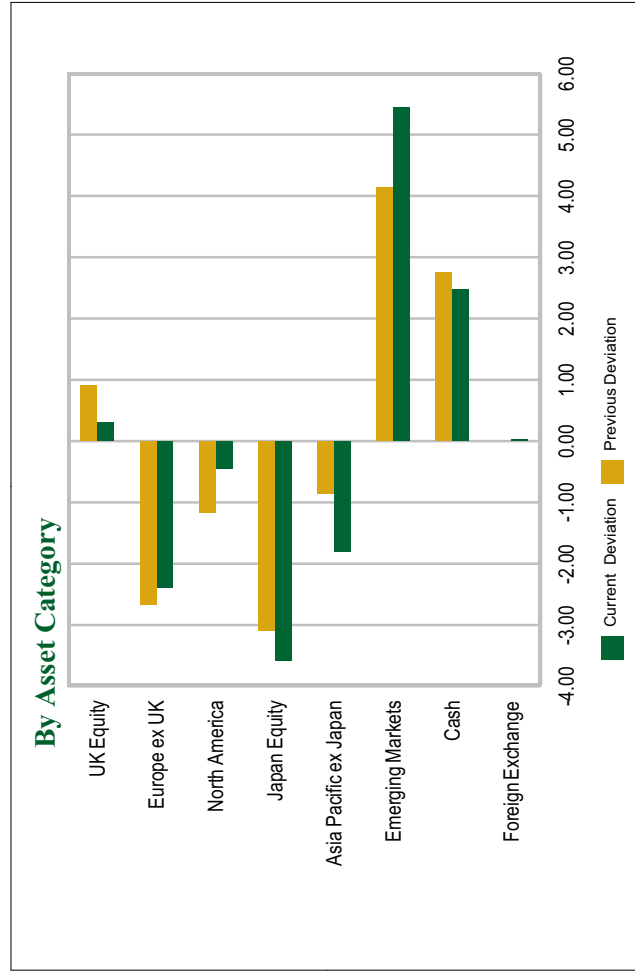
	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Alliance Bernstein	8.58	8.75	-0.15	0.17	-0.23	0.22	-0.31	-0.15
Equity	8.61	-	8.61	0.00	-0.23	0.42	-0.31	-0.13
UK Equity	-2.58	-	-2.58	0.00	-0.00	-0.04	0.00	-0.04
Europe ex UK	11.08	13.41	-2.05	0.00	-0.19	0.03	-0.54	-0.69
North America	5.48	5.81	-0.32	0.00	0.03	-0.02	-0.09	-0.08
Japan Equity	1.32	0.13	1.19	0.00	-0.04	0.28	0.13	0.37
Asia Pacific ex Japan	14.44	15.00	-0.49	0.00	0.04	-0.03	-0.12	-0.12
Emerging Markets	14.40	12.11	2.04	0.00	-0.07	0.21	0.31	0.44
Cash	0.24	-	0.24	0.00	0.00	-0.20	0.00	-0.20



Alliance Bernstein

3rd Quarter, 2010

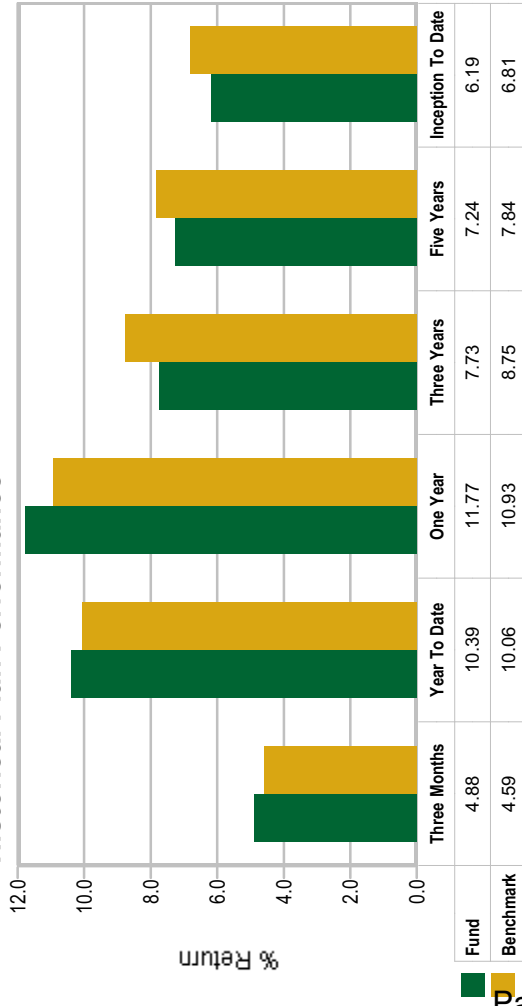
London Borough of Hillingdon



	Current Qtr	Previous Qtr	Current Benchmark	Previous Benchmark	Current Deviation	Previous Deviation
UK Equity	0.30	0.91	30.00	30.00	0.30	0.91
Europe ex UK	27.61	27.33	30.00	30.00	-2.39	-2.67
North America	34.55	33.83	35.00	35.00	-0.45	-1.17
Japan Equity	11.41	11.91	15.00	15.00	-3.59	-3.09
Asia Pacific ex Japan	8.20	9.14	10.00	10.00	-1.80	-0.86
Emerging Markets	15.44	14.14	10.00	10.00	5.44	4.14
Cash	2.47	2.74			2.47	2.74
Foreign Exchange	0.02	-0.00			0.02	-0.00



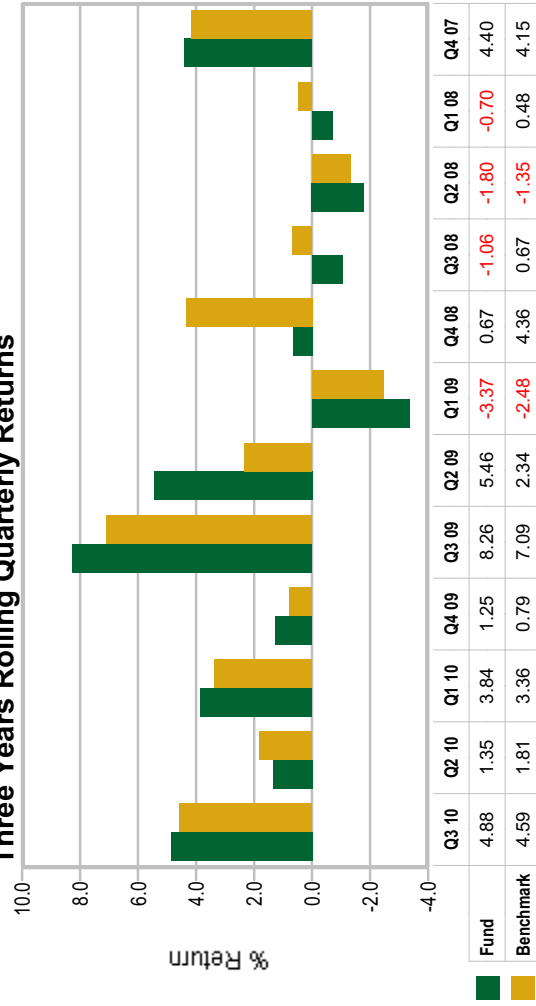
Historical Plan Performance



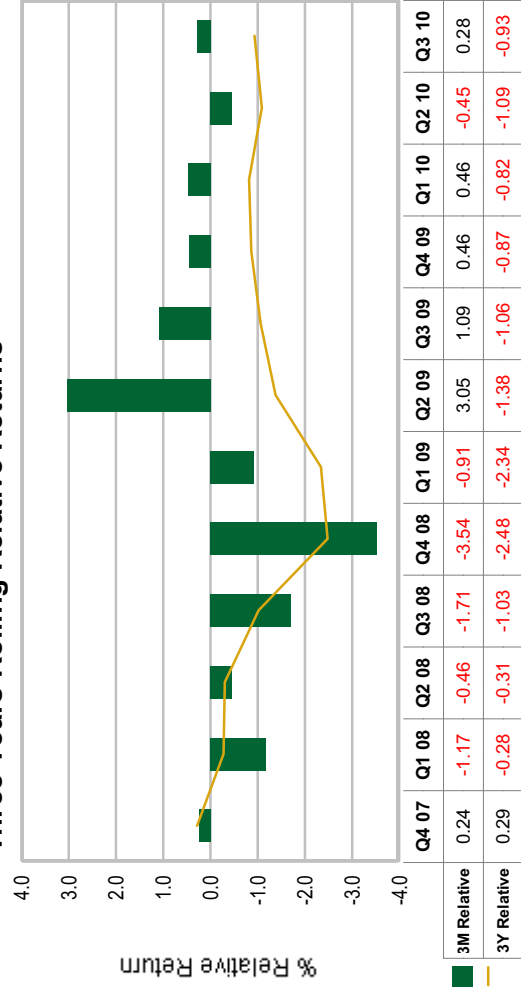
Risk Statistics - 3 years

	Fund	B'mark
Performance Return	7.73	8.75
Standard Deviation	7.43	6.83
Relative Return	-0.93	
Tracking Error	2.14	
Information Ratio	-0.47	
Beta	1.06	
Alpha	-1.18	
R Squared	0.92	
Sharpe Ratio	0.53	0.72
Percentage of Total Fund	12.6	
Inception Date	Dec-2001	
Opening Market Value (£000)	63,388	
Net Investment £(000)	0	
Income Received £(000)	74	
Appreciation £(000)	3,020	
Closing Market Value (£000)	66,483	

Three Years Rolling Quarterly Returns

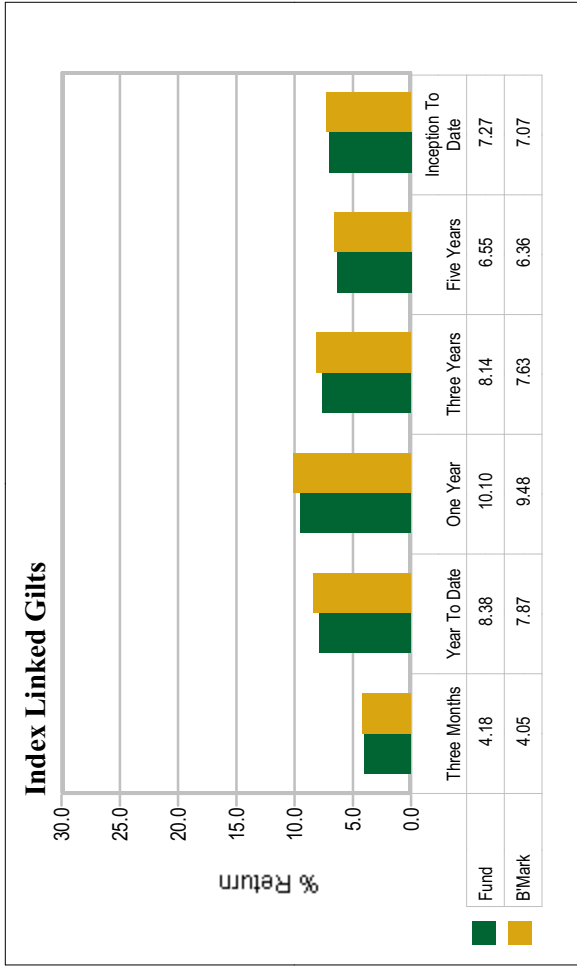
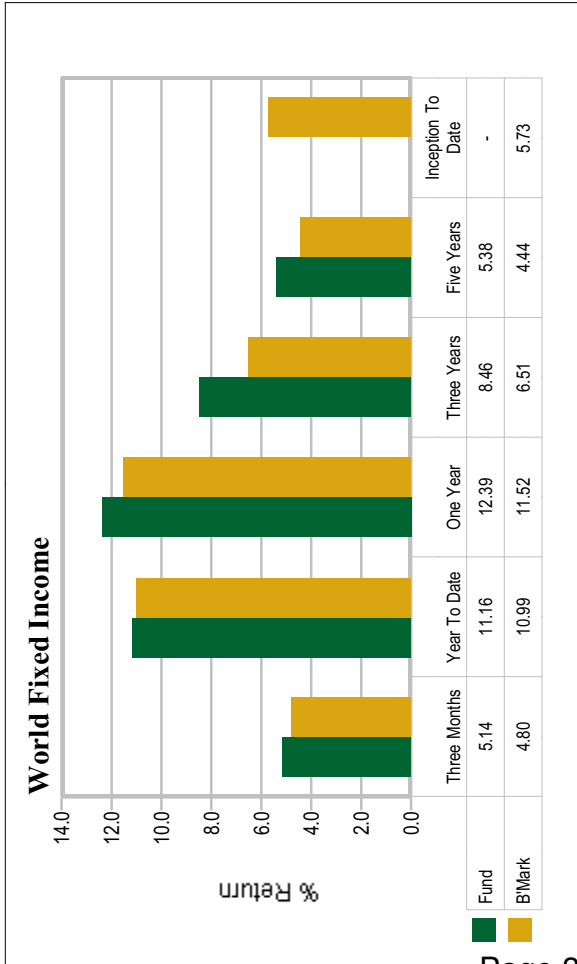


Three Years Rolling Relative Returns





Goldman Sachs

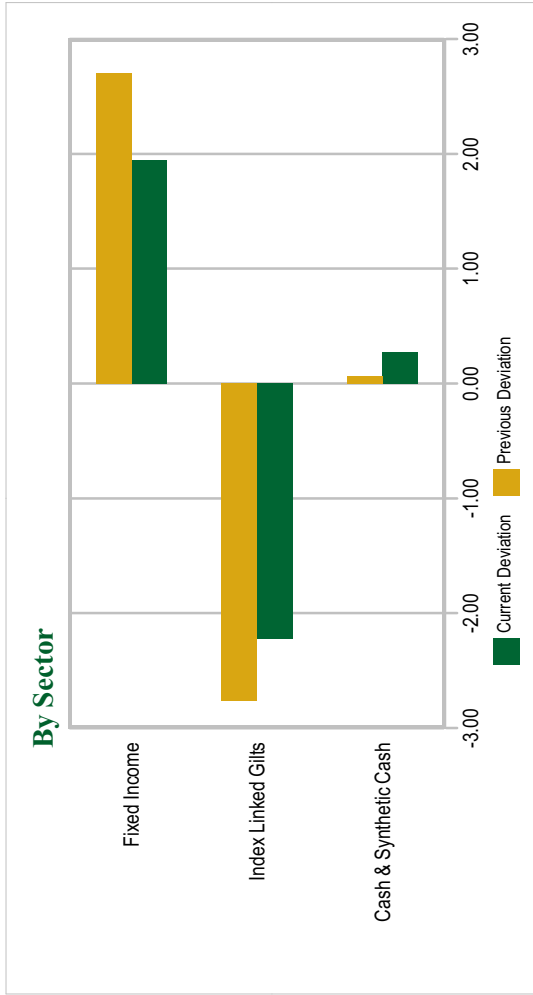




Goldman Sachs

3rd Quarter, 2010

London Borough of Hillingdon

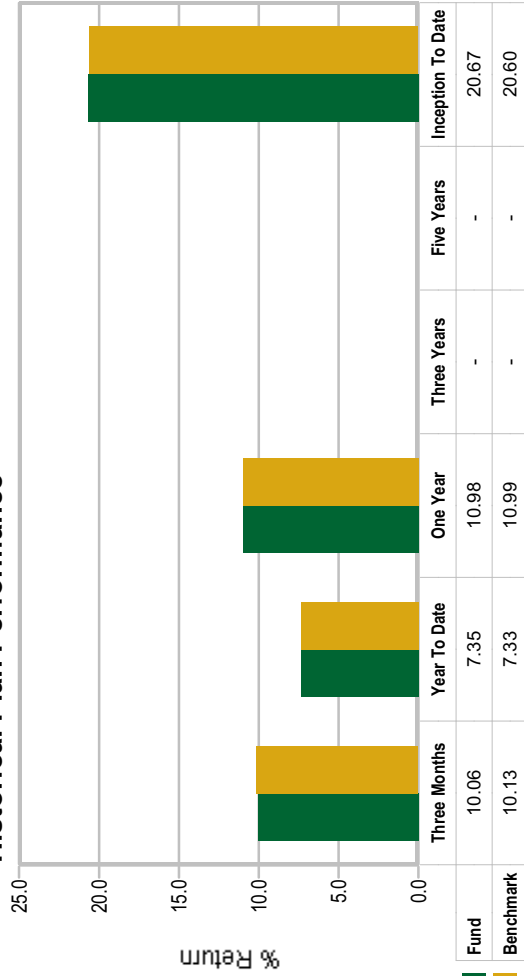


	Current Qtr	Previous Qtr	Current Benchmark	Previous Benchmark	Current Deviation	Previous Deviation
Fixed Income	71.94	72.70	70.00	70.00	1.94	2.70
Index Linked Gilt	27.78	27.23	30.00	30.00	-2.22	-2.77
Cash & Synthetic Cash	0.28	0.07			0.28	0.07



SSGA

Historical Plan Performance

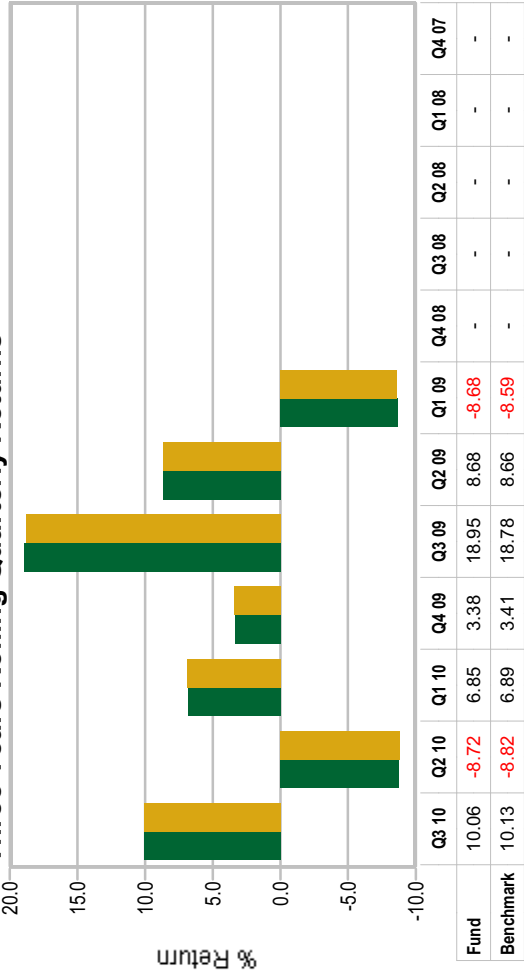


Risk Statistics - 3 years

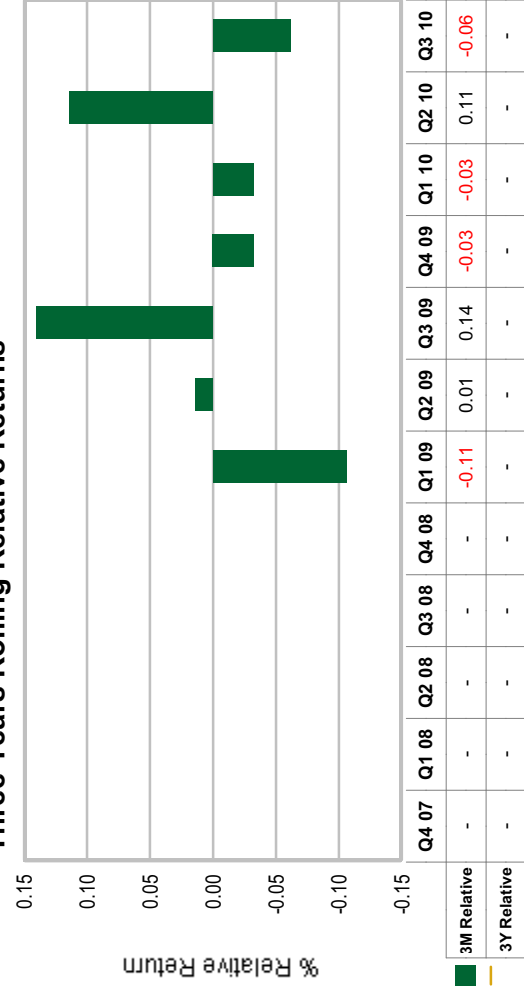
Fund B'mark

Performance Return	-
Standard Deviation	-
Relative Return	-
Tracking Error	-
Information Ratio	-
Beta	-
Alpha	-
R Squared	-
Sharpe Ratio	-
Percentage of Total Fund	20.1
Inception Date	Nov-2008
Opening Market Value (£000)	96,613
Net Investment £(000)	0
Income Received £(000)	0
Appreciation £(000)	9,721
Closing Market Value (£000)	106,334

Three Years Rolling Quarterly Returns

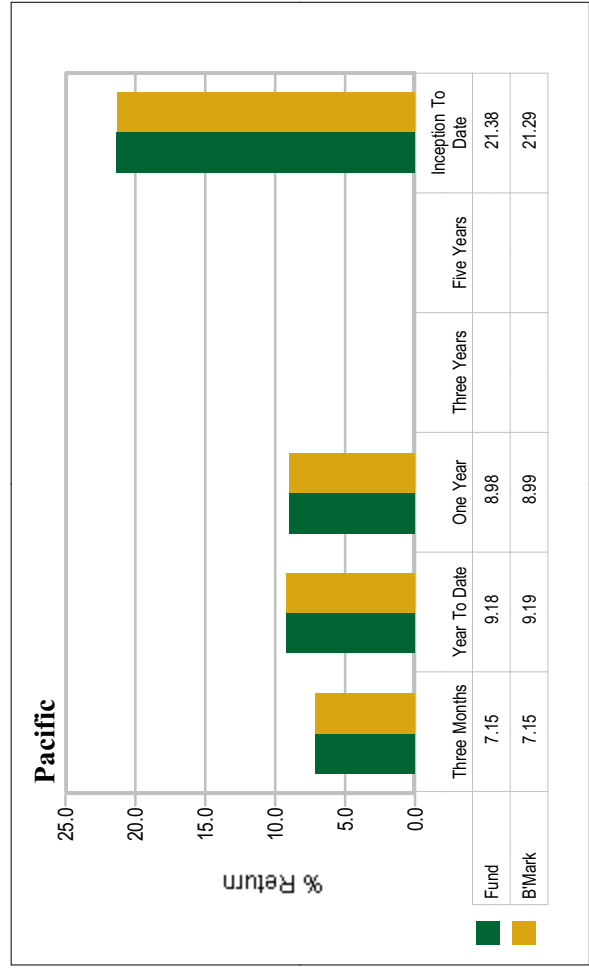
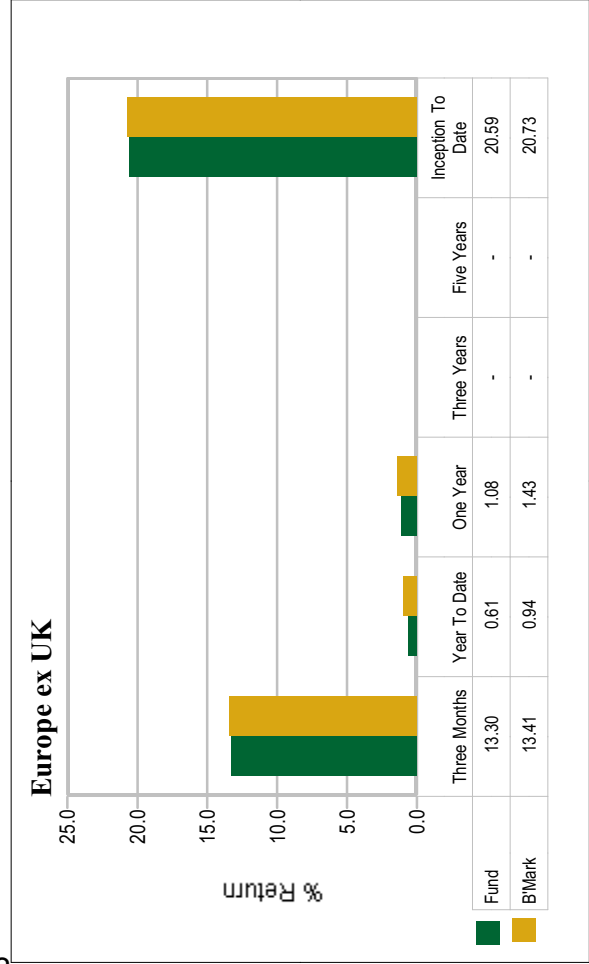
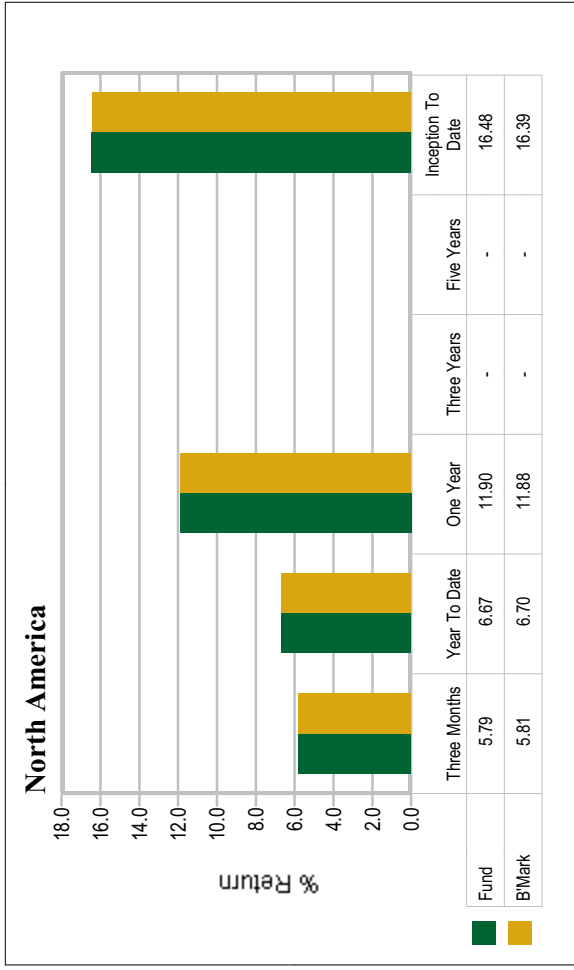
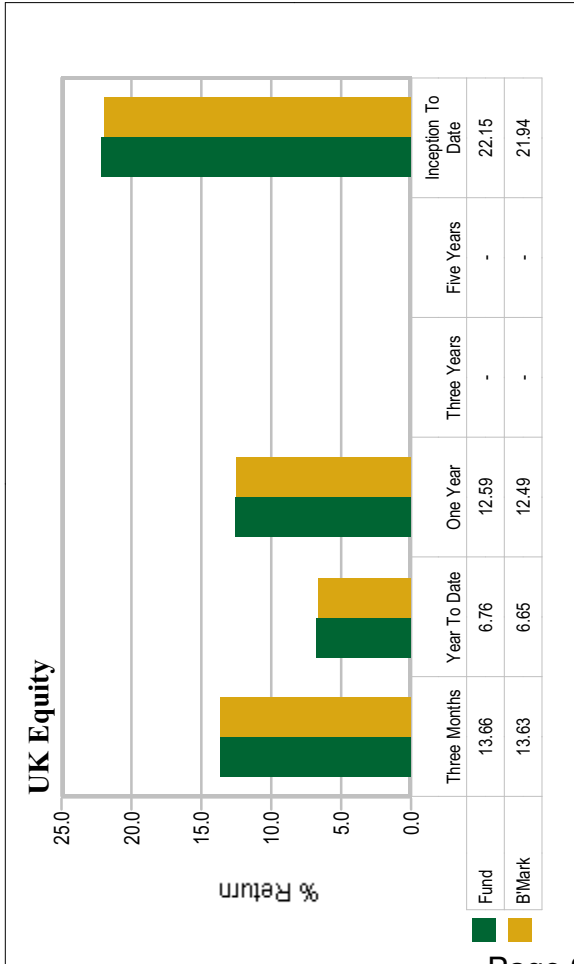


Three Years Rolling Relative Returns



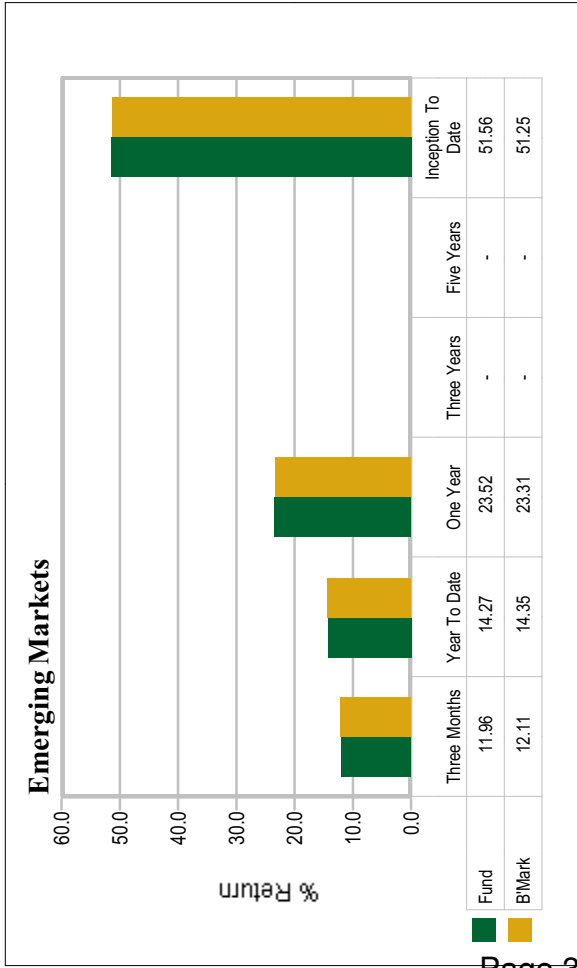


SSGA



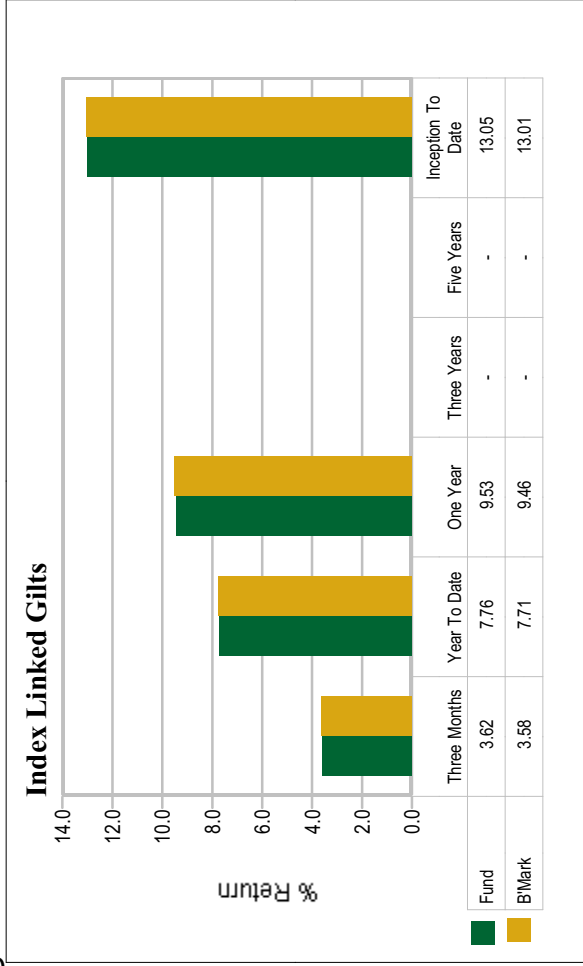
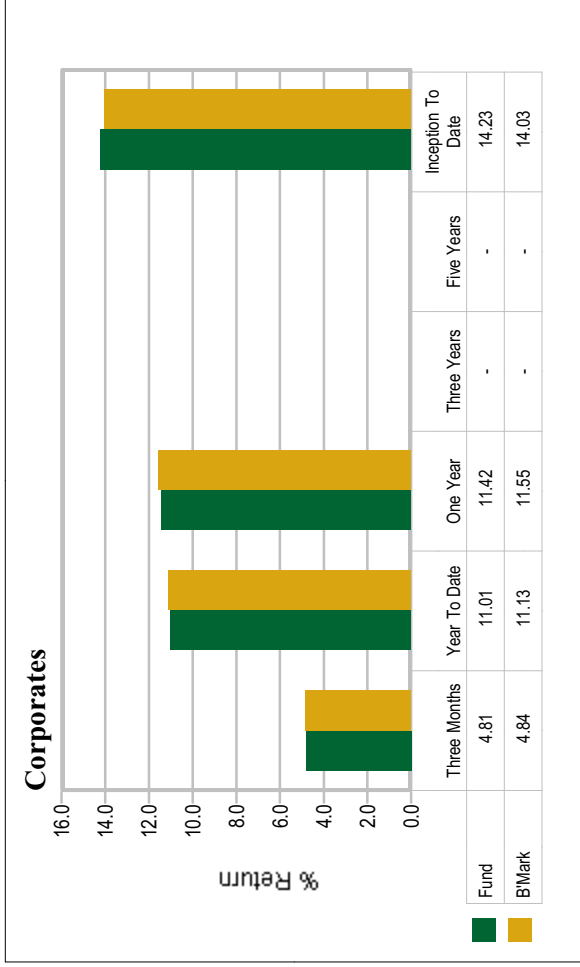
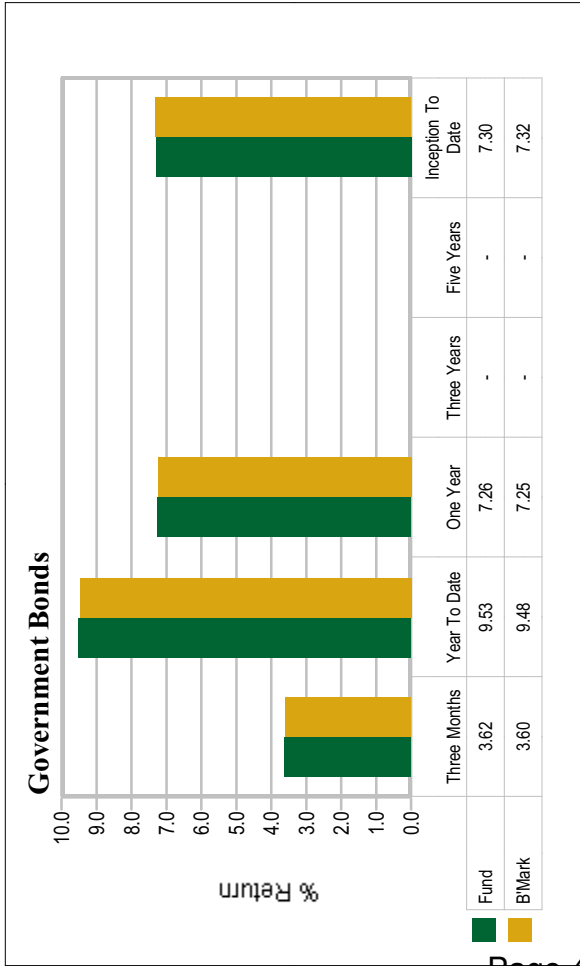


SSGA





SSGA

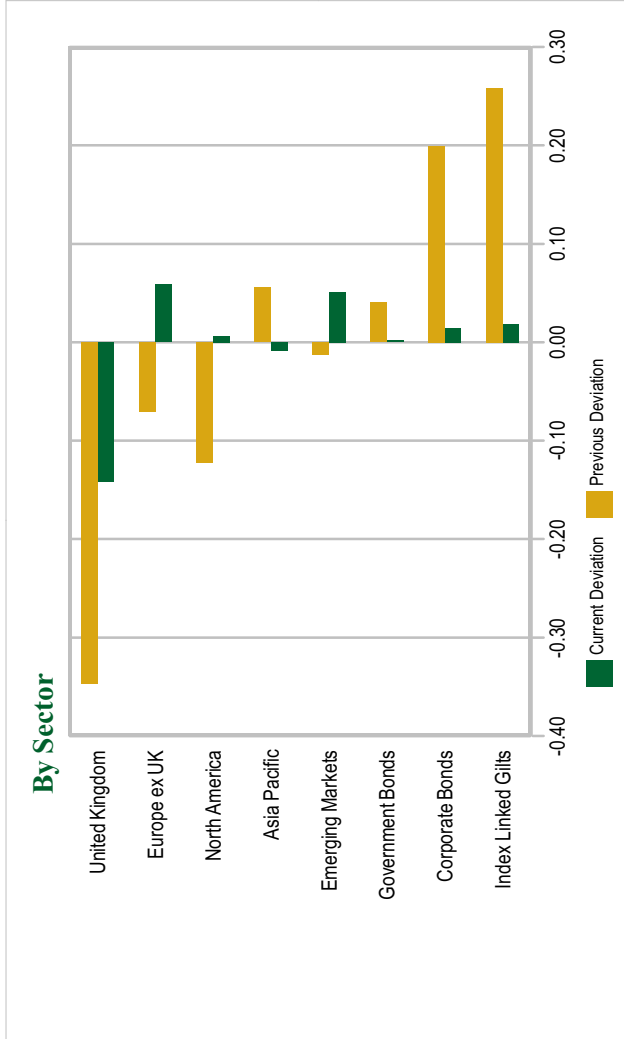




SSGA

3rd Quarter, 2010

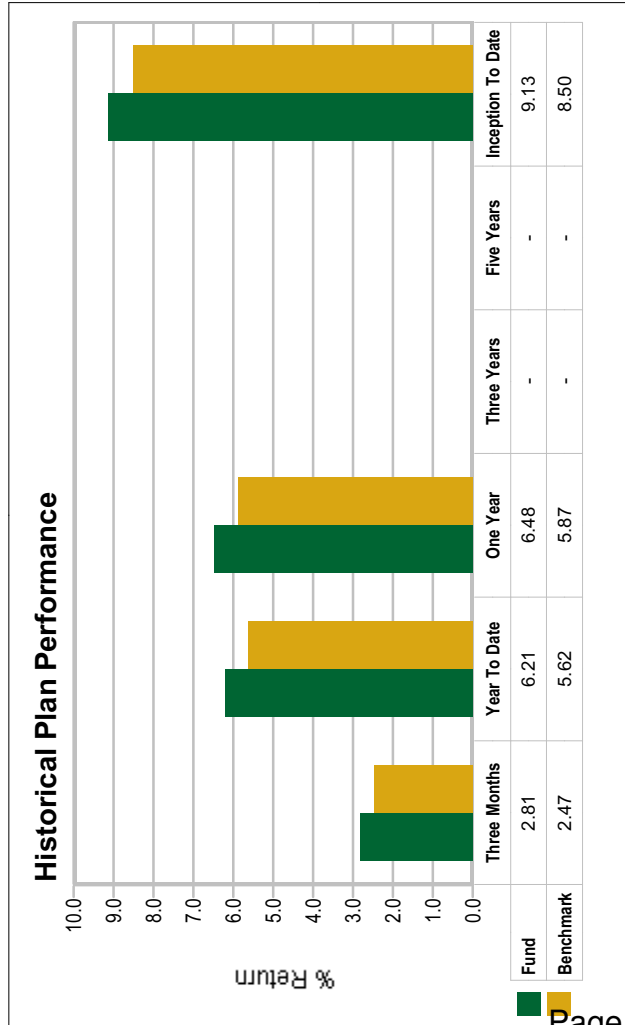
London Borough of Hillingdon



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Equity	79.96	79.50		79.96		79.50
United Kingdom	43.86	43.65	44.00	-0.14	44.00	-0.35
Europe ex UK	11.06	10.93	11.00	0.06	11.00	-0.07
North America	11.01	10.88	11.00	0.01	11.00	-0.12
Asia Pacific	10.99	11.06	11.00	-0.01	11.00	0.06
Emerging Markets	3.05	2.99	3.00	0.05	3.00	-0.01
Fixed Income	10.02	10.24		10.02		10.24
Government Bonds	1.50	1.54	1.50	0.00	1.50	0.04
Corporate Bonds	8.51	8.70	8.50	0.01	8.50	0.20
Index Linked Gilts	10.02	10.26	10.00	0.02	10.00	0.26



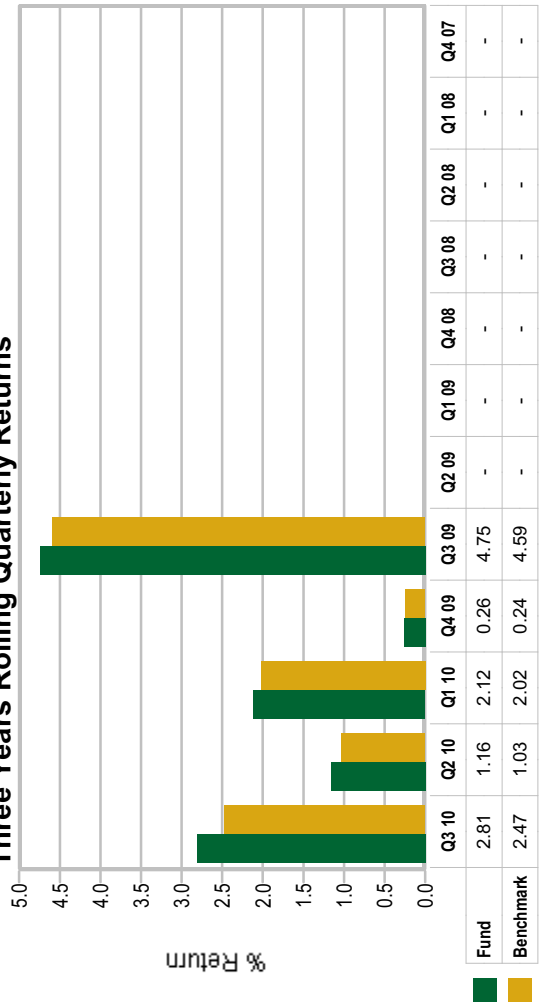
SSGA Drawdown



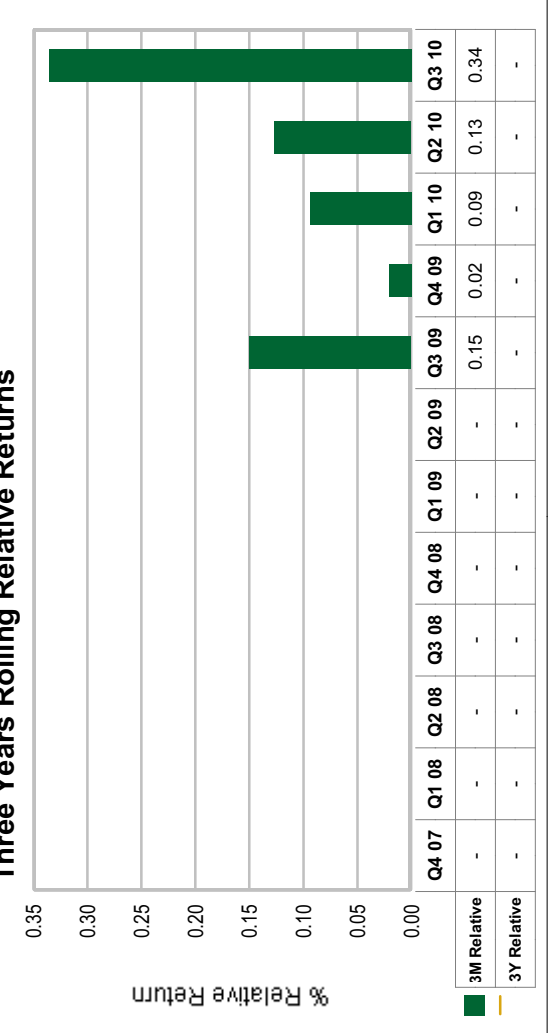
Risk Statistics - 3 years

	Fund	Bmark
Performance Return	-	-
Standard Deviation	-	-
Relative Return	-	-
Tracking Error	-	-
Information Ratio	-	-
Beta	-	-
Alpha	-	-
R Squared	-	-
Sharpe Ratio	-	-
Percentage of Total Fund	4.0	-
Inception Date	Jun-2009	-
Opening Market Value (£000)	20,605	-
Net Investment £(000)	0	-
Income Received £(000)	0	-
Appreciation £(000)	580	-
Closing Market Value (£000)	21,185	-

Three Years Rolling Quarterly Returns

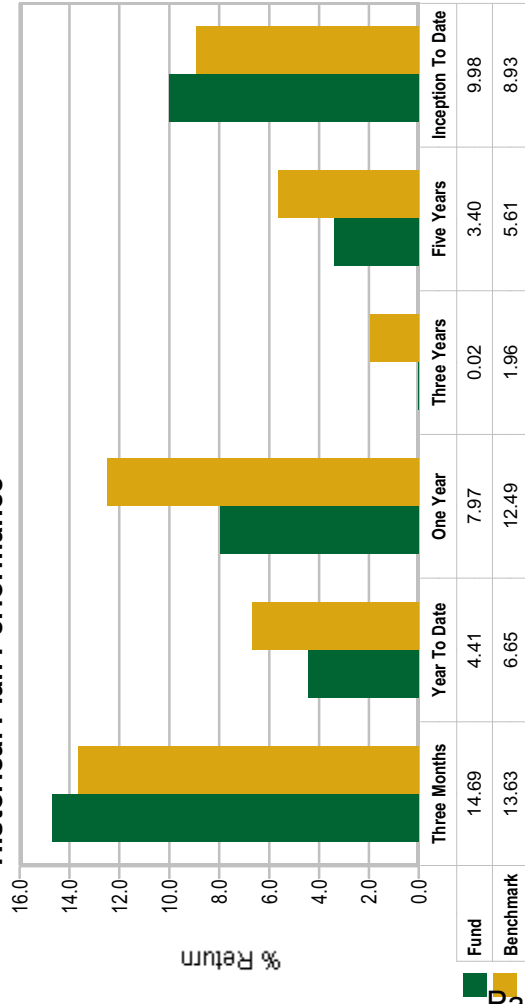


Three Years Rolling Relative Returns





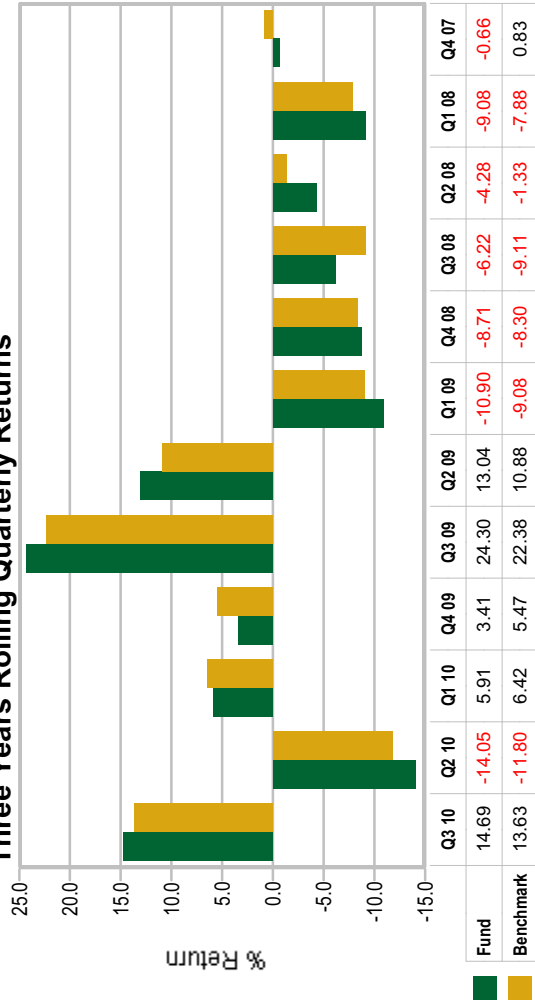
Historical Plan Performance



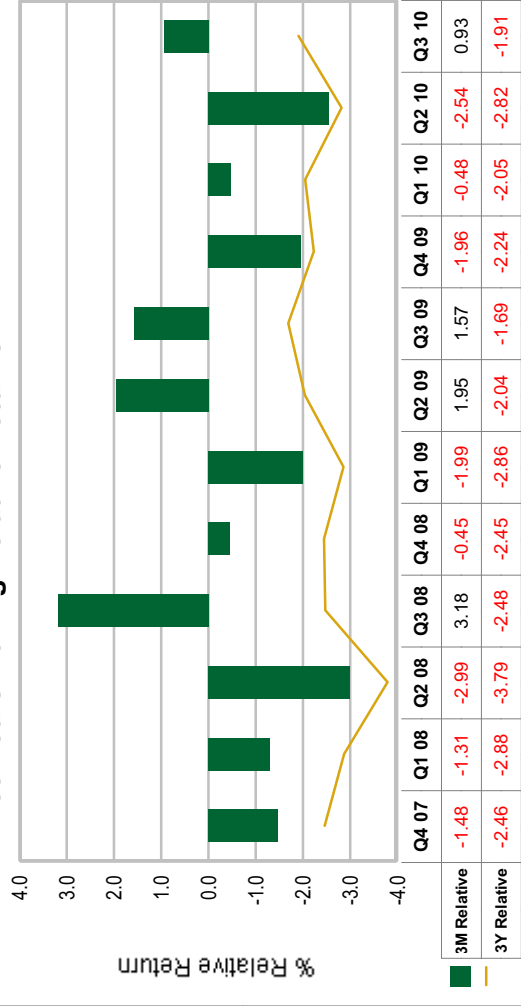
Risk Statistics - 3 years

	Fund	B'mark
Performance Return	0.02	1.96
Standard Deviation	20.68	18.59
Relative Return	-1.91	
Tracking Error	4.48	
Information Ratio	-0.43	
Beta	1.09	
Alpha	-1.51	
R Squared	0.96	
Sharpe Ratio	-0.18	-0.10
Percentage of Total Fund	19.6	
Inception Date	Dec-1988	
Opening Market Value (£000)	90,380	
Net Investment £(000)	0	
Income Received £(000)	783	
Appreciation £(000)	12,496	
Closing Market Value (£000)	103,659	

Three Years Rolling Quarterly Returns

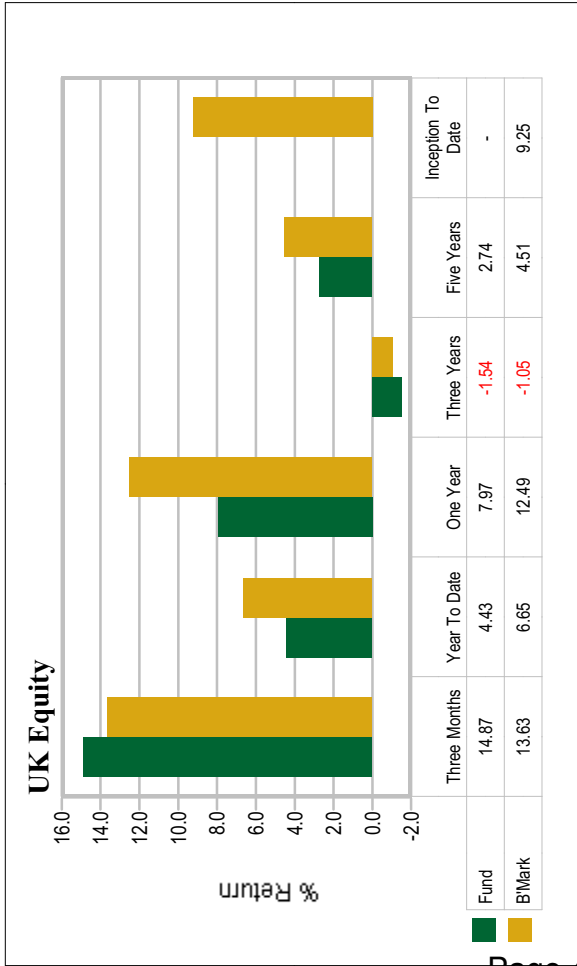


Three Years Rolling Relative Returns





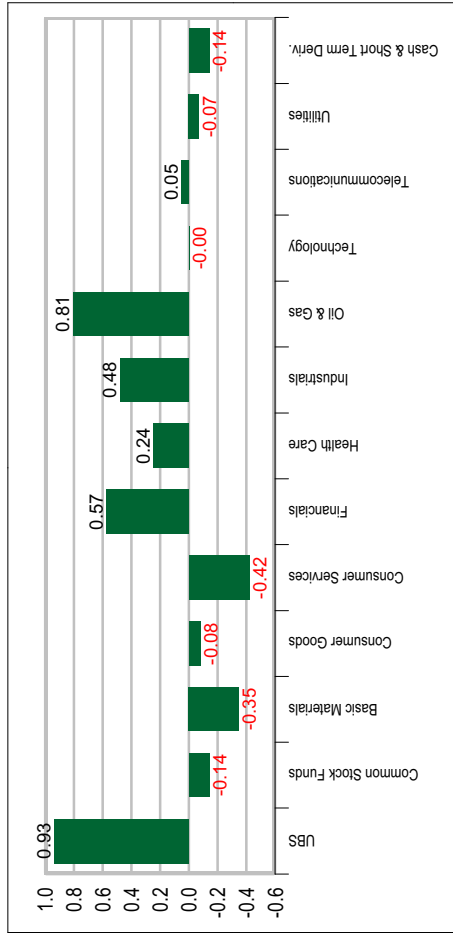
UBS



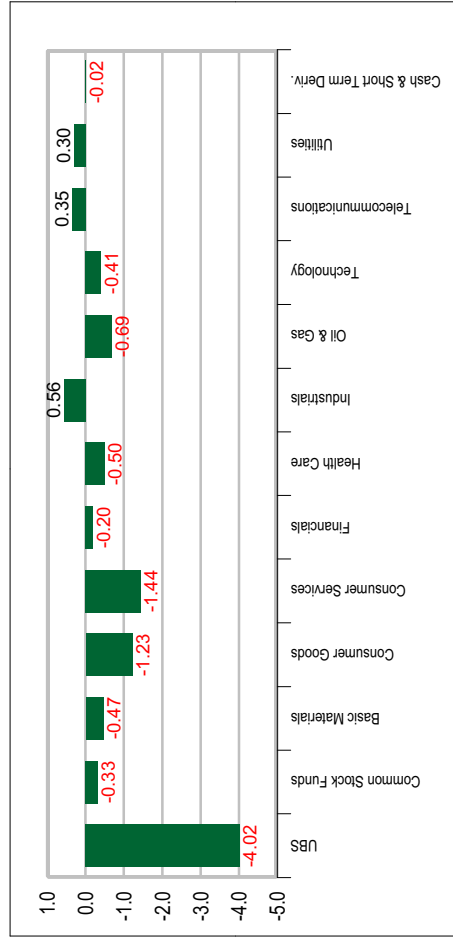


UBS

Relative Contribution - Three Months



Relative Contribution - One Year



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
UBS	14.69	13.63	0.93	-0.57	1.50	0.93
Common Stock Funds	8.27	-	8.27	-0.14	0.00	-0.14
Basic Materials	18.58	20.46	-1.57	-0.22	-0.13	-0.35
Consumer Goods	5.40	9.77	-3.98	0.18	-0.26	-0.08
Consumer Services	8.18	10.59	-2.18	-0.12	-0.30	-0.42
Financials	17.03	13.11	3.47	0.03	0.54	0.57
Health Care	11.07	6.84	3.96	-0.15	0.40	0.24
Industrials	18.18	11.94	5.57	-0.01	0.49	0.48
Oil & Gas	24.73	20.20	3.77	0.11	0.69	0.81
Technology	19.04	18.36	0.58	-0.01	0.01	-0.00
Telecommunications	12.62	11.04	1.43	-0.11	0.16	0.05
Utilities	8.03	10.35	-2.10	0.00	-0.08	-0.07
Cash & Short Term Deriv.	0.07	-	0.07	-0.14	0.00	-0.14

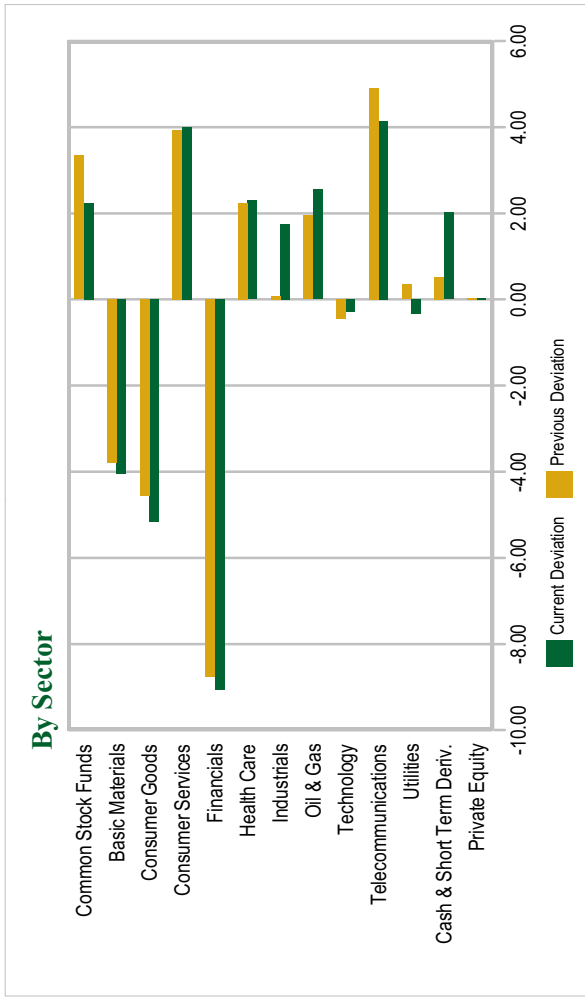
	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
UBS	7.97	12.49	-4.02	-0.82	-3.27	-4.02
Common Stock Funds	1.36	-	1.36	-0.33	0.00	-0.33
Basic Materials	36.09	32.01	3.09	-0.64	0.17	-0.47
Consumer Goods	4.88	20.10	-12.67	-0.29	-0.94	-1.23
Consumer Services	2.58	14.99	-10.80	-0.01	-1.43	-1.44
Financials	-3.08	1.73	-4.73	0.58	-0.78	-0.20
Health Care	8.57	13.13	-4.03	0.02	-0.52	-0.50
Industrials	31.03	23.77	5.87	0.05	0.50	0.56
Oil & Gas	-1.31	0.94	-2.23	-0.34	-0.35	-0.69
Technology	-0.26	33.02	-25.02	-0.06	-0.35	-0.41
Telecommunications	19.28	17.57	1.45	0.19	0.16	0.35
Utilities	31.37	18.57	10.79	0.04	0.26	0.30
Cash & Short Term Deriv.	2.17	-	2.17	-0.02	0.00	-0.02



UBS

3rd Quarter, 2010

London Borough of Hillingdon

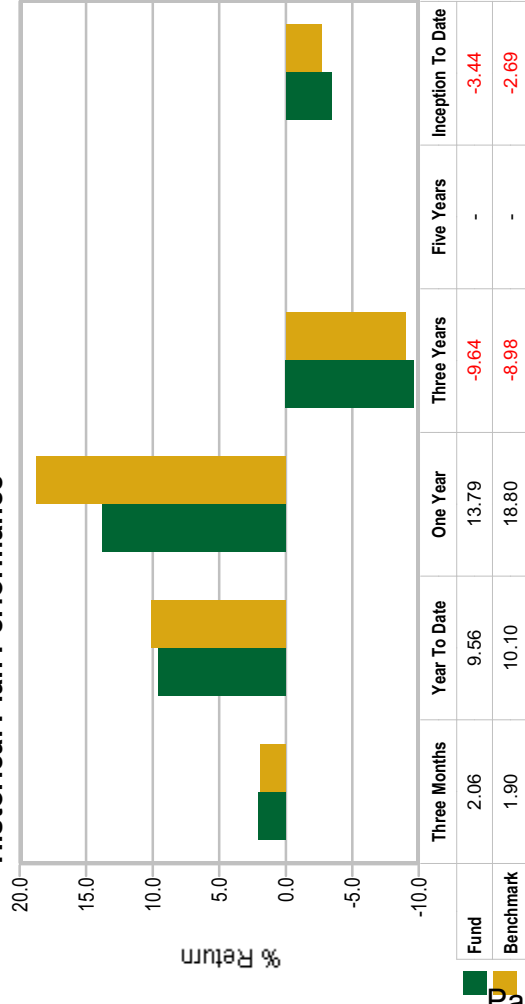


	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Common Stock Funds	2.23	3.35		2.23		3.35
Basic Materials	8.20	7.73	12.24	-4.04	11.53	-3.80
Consumer Goods	6.37	7.46	11.53	-5.16	12.01	-4.55
Consumer Services	13.88	14.09	9.88	4.00	10.15	3.94
Financials	14.66	14.62	23.72	-9.06	23.38	-8.76
Health Care	9.93	10.39	7.63	2.31	8.15	2.24
Industrials	9.02	7.75	7.27	1.75	7.66	0.08
Oil & Gas	18.76	17.37	16.20	2.55	15.41	1.96
Technology	1.50	1.27	1.79	-0.30	1.72	-0.45
Telecommunications	10.13	11.03	5.99	4.14	6.11	4.91
Utilities	3.40	4.21	3.74	-0.34	3.86	0.34
Cash & Short Term Deriv.	2.02	0.51		2.02		0.51
Private Equity	0.04	0.05		0.04		0.05



UBS Property

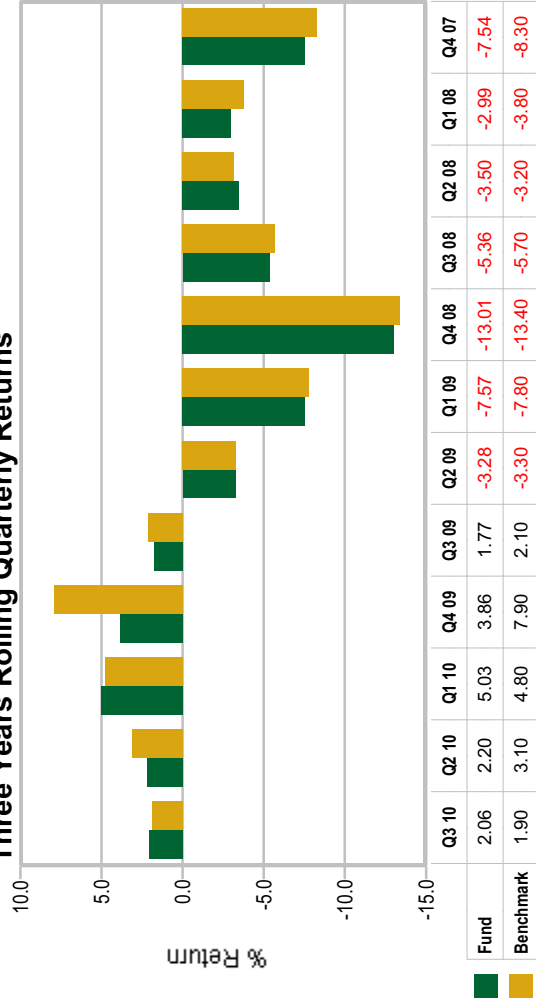
Historical Plan Performance



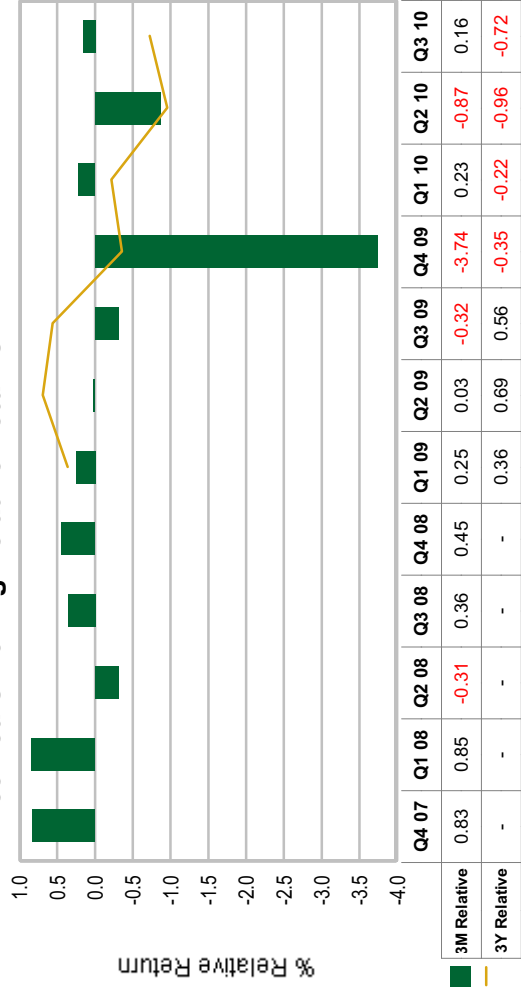
Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-9.64	-8.98
Standard Deviation	6.65	7.04
Relative Return	-0.72	
Tracking Error	2.77	
Information Ratio	-0.24	
Beta	0.88	
Alpha	-2.22	
R Squared	0.87	
Sharpe Ratio	-2.02	-1.82
Percentage of Total Fund	8.5	
Inception Date	Mar-2006	
Opening Market Value (£000)	44,054	
Net Investment £(000)	-0	
Income Received £(000)	458	
Appreciation £(000)	451	
Closing Market Value (£000)	44,963	

Three Years Rolling Quarterly Returns



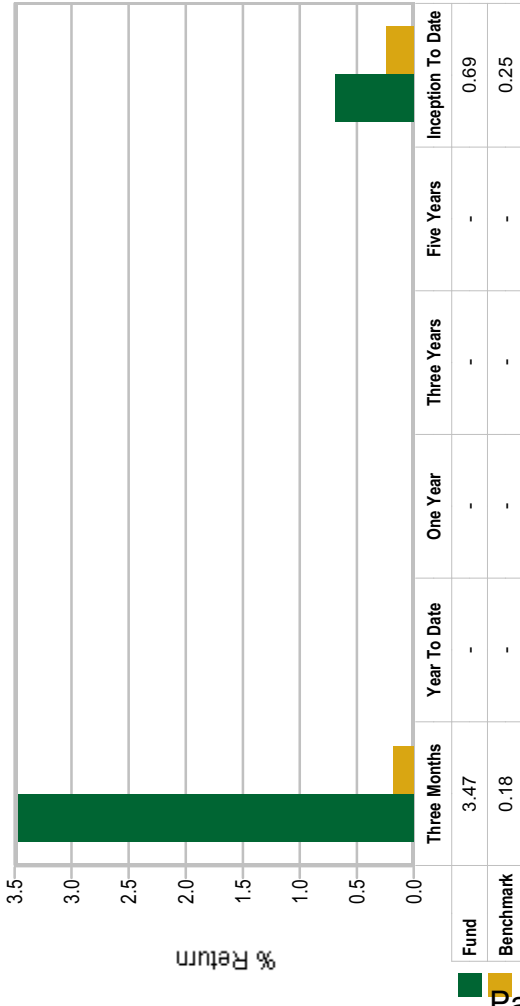
Three Years Rolling Relative Returns





Ruffer

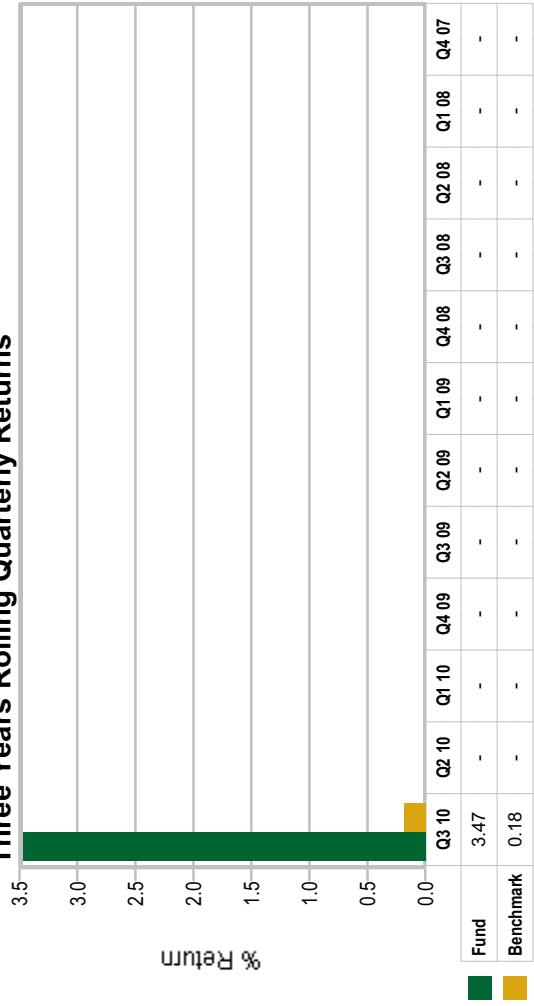
Historical Plan Performance



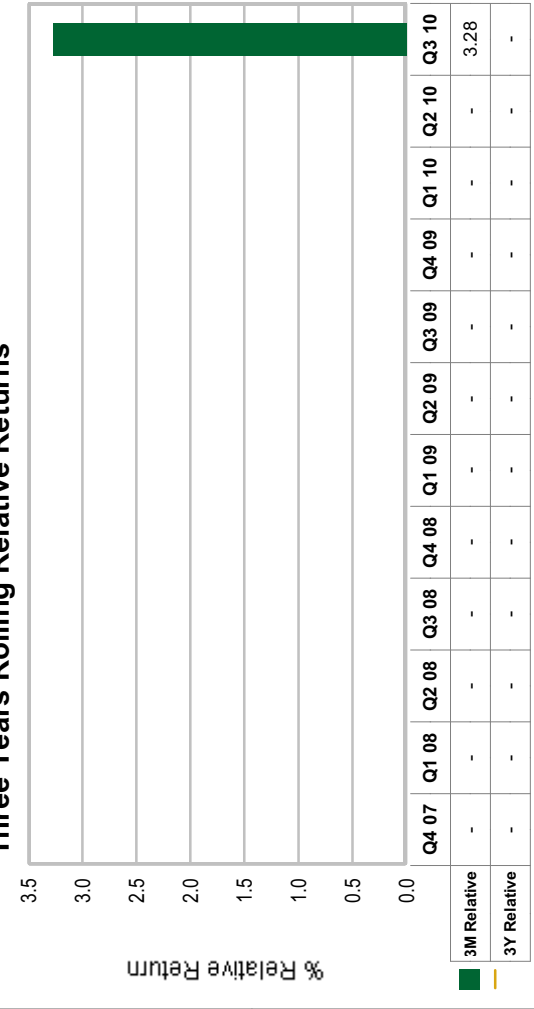
Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-	-
Standard Deviation	-	-
Relative Return	-	-
Tracking Error	-	-
Information Ratio	-	-
Beta	-	-
Alpha	-	-
R Squared	-	-
Sharpe Ratio	-	-
Percentage of Total Fund	9.6	-
Inception Date	May-2010	-
Opening Market Value (£000)	48,955	-
Net Investment £(000)	0	-
Income Received £(000)	220	-
Appreciation £(000)	1,477	-
Closing Market Value (£000)	50,653	-

Three Years Rolling Quarterly Returns



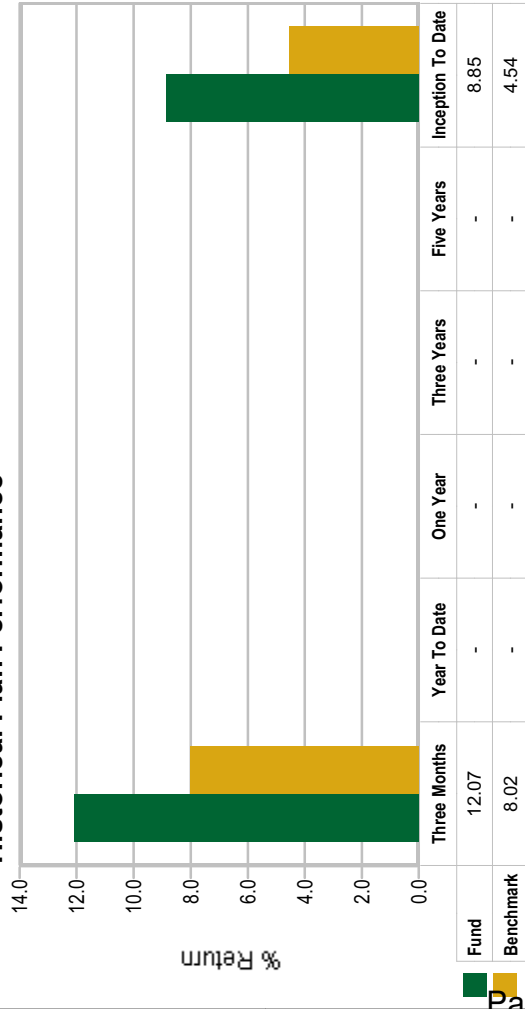
Three Years Rolling Relative Returns





Marathon

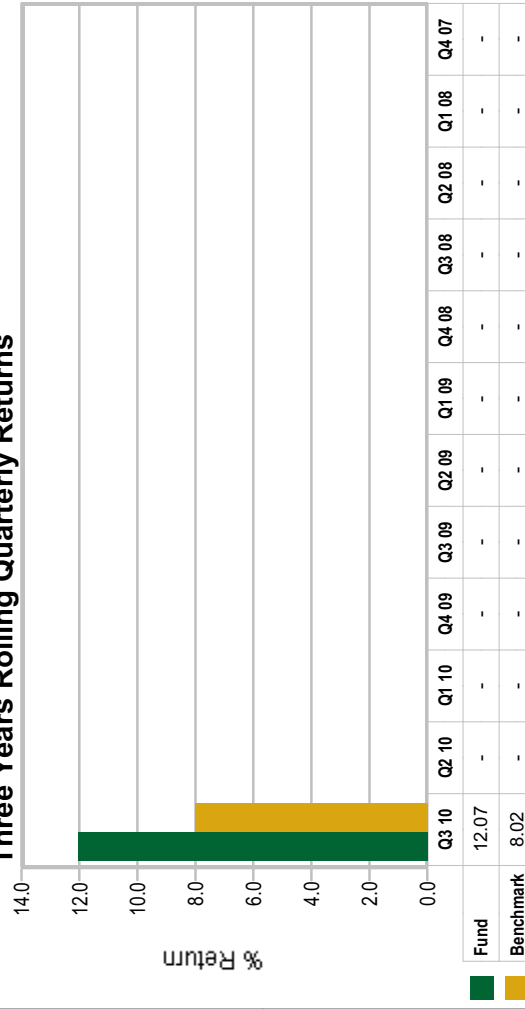
Historical Plan Performance



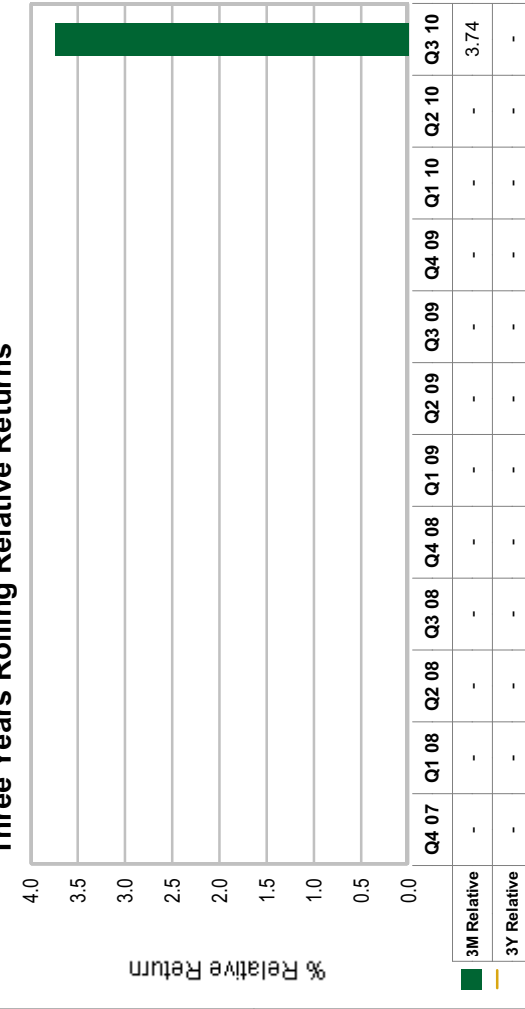
Risk Statistics - 3 years

	Fund	Bmark
Performance Return	-	-
Standard Deviation	-	-
Relative Return	-	-
Tracking Error	-	-
Information Ratio	-	-
Beta	-	-
Alpha	-	-
R Squared	-	-
Sharpe Ratio	-	-
Percentage of Total Fund	10.1	-
Inception Date	Jun-2010	-
Opening Market Value (£000)	47,432	-
Net Investment £(000)	0	-
Income Received £(000)	0	-
Appreciation £(000)	5,723	-
Closing Market Value (£000)	53,155	-

Three Years Rolling Quarterly Returns



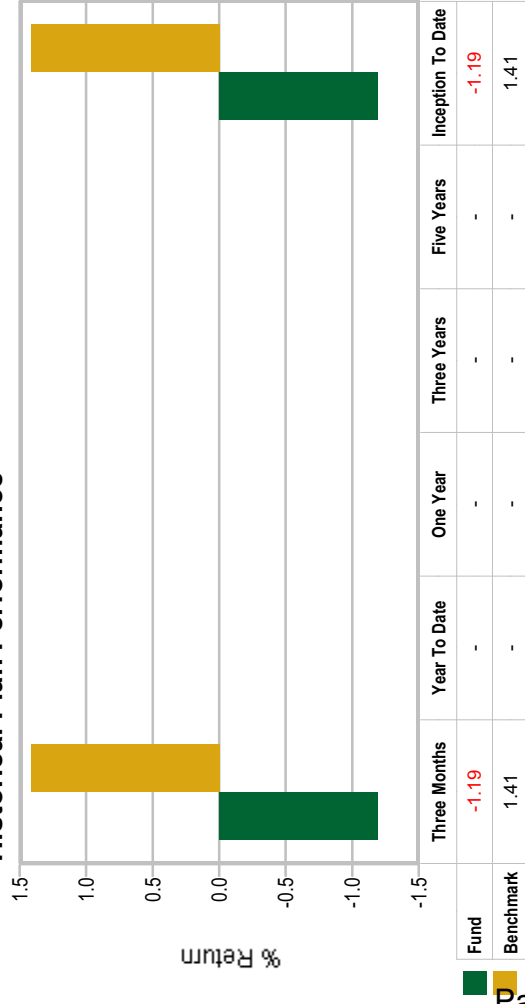
Three Years Rolling Relative Returns





Fauchier

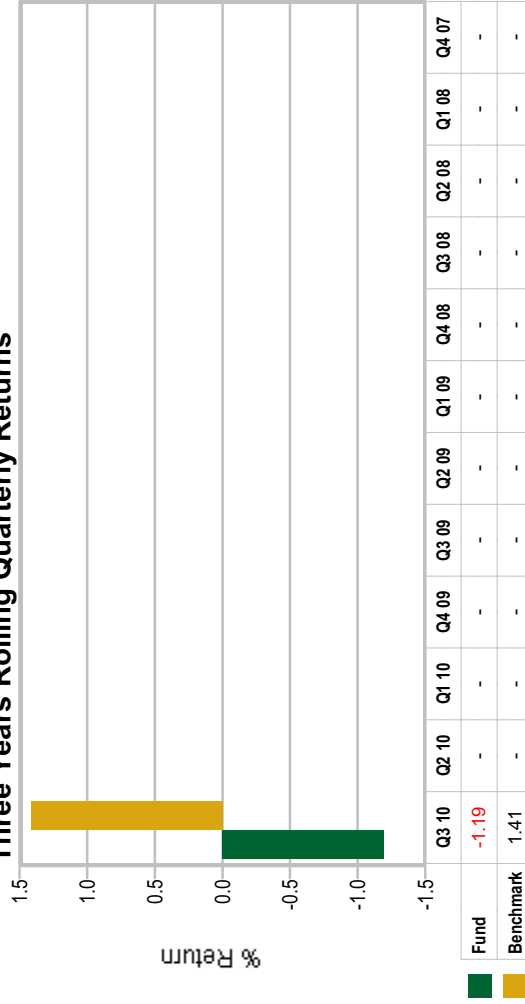
Historical Plan Performance



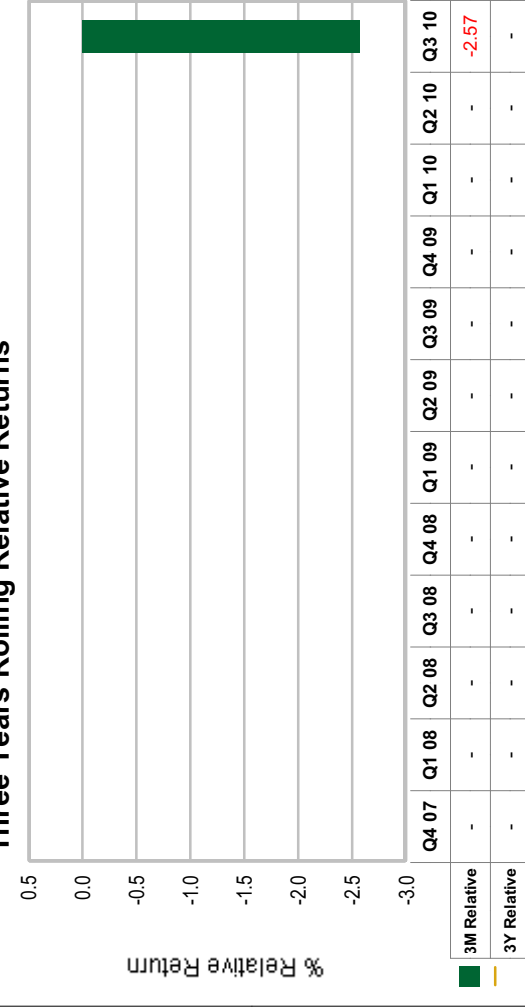
Risk Statistics - 3 years

	Fund	Bmark
Performance Return	-	-
Standard Deviation	-	-
Relative Return	-	-
Tracking Error	-	-
Information Ratio	-	-
Beta	-	-
Alpha	-	-
R Squared	-	-
Sharpe Ratio	-	-
Percentage of Total Fund	4.6	-
Inception Date	Jun-2010	-
Opening Market Value (£000)	0	-
Net Investment (£000)	24,800	-
Income Received (£000)	0	-
Appreciation (£000)	-296	-
Closing Market Value (£000)	24,504	-

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns





Total Plan Benchmark

- 36.8 FTSE All Share
- 12.9 FTSE AW North America
- 11.1 FTSE AW Developed Europe ex UK
- 5.5 FTSE AW Japan
- 3.7 FTSE AW Developed Asia Pacific ex Japan
- 3.7 FTSE AW Emerging Markets
- 1.6 FTSE All Stock
- 8.9 iBox £ Non-Gilts (82.35%) / iBox £ Non-Gilt 15+ (17.65%)
- 5.3 FTSE Index Linked Gilts 5+ Yrs
- 10.5 UBS Property Index

Alliance Bernstein

- 30.0 FTSE AW Developed Europe ex UK
- 35.0 FTSE AW North America
- 15.0 FTSE AW Japan
- 10.0 FTSE AW Developed Asia Pac ex Japan
- 10.0 FTSE AW Emerging Markets

Goldman Sachs

- 70.0 ML Sterling Broad Market
- 30.0 FTSE Index Linked Gilts 5+ Yrs

SSGA

- 44.0 FTSE All Share
- 11.0 FTSE World North America
- 11.0 FTSE World Europe ex UK
- 11.0 FTSE Pacific Basin ex Japan
- 3.0 FTSE All World All Emerging
- 1.5 FTA British Government Conventional Gilts All Stocks
- 10.0 FTA British Government Index Linked Gilts All Stocks
- 8.5 ML Sterling Non-Gilts

SSGA Drawdown

- 50.0 ML Sterling Non-Gilts
- 50.0 FT 7 Day LIBID

UBS

- 100.0 FTSE All Share

UBS Property

- 100.0 HSBC All Balanced Funds

Ruffer

- 100.0 LIBOR 3 Month GBP

Marathon

- 100.0 MSCI World

Fauchier

- 100.0 LIBOR 3 Month +5%



Previous Benchmark

Alliance Bernstein

- 50.0 FTSE All Share
- 15.0 FTSE AW Developed Europe ex UK
- 17.5 FTSE AW North America
- 7.5 FTSE AW Japan
- 5.0 FTSE AW Developed Asia Pac ex Japan
- 5.0 MSCI Emerging Markets



Tracking Error

$$\sigma_{ER} = \sqrt{\frac{\sum (ER_t - \overline{ER})^2}{T}} \text{ for } t=1 \text{ to } T$$

Annualised tracking error = $\sigma_{ER} \times \sqrt{p}$

Where

Equals

ER Excess return (Portfolio Return minus Benchmark Return)

ER Return) Arithmetic average of excess returns (Portfolio Return minus Benchmark Return)

T Number of observations

p Periodicity (number of observations per year)

Page 53
The tracking error measures the extent to which a portfolio tracks its benchmark. The higher the tracking error, the higher the variability of the portfolio returns around the benchmark. The tracking error will always be greater than zero, unless the portfolio is exactly tracking the benchmark.

Information Ratio

$$\text{Information Ratio} = \frac{\overline{ER}}{\sigma_{ER}}$$

Annualised Information Ratio = Information Ratio $\times \sqrt{p}$

Where

Equals

ER Return) Arithmetic average of excess returns (Portfolio Return minus Benchmark Return)

T Number of observations

p Periodicity (number of observations per year)

The information ratio is a measure of risk adjusted return. The higher the information ratio, the higher the risk adjusted return.



Alpha

$$\alpha = \frac{\sum R_{yt}}{n} - \beta \frac{\sum R_{xt}}{n}$$

Where

Equals

R_{xt} Proxy return) Market / Benchmark excess return (Benchmark return minus Risk Free Proxy return)

R_{yt} Portfolio excess return (Portfolio return minus Risk Free Proxy return)

β those of the market Beta – measure of the sensitivity of a portfolio’s rate of return against those of the market

n Number of observations

The alpha is the value added to the portfolio by the manager – the higher the alpha, the better the manager has done in achieving excess returns.

Beta

$$\beta = \frac{n \sum R_{xt} R_{yt} - \sum R_{xt} \sum R_{yt}}{n \sum (R_{xt})^2 - (\sum R_{xt})^2}$$

Where

Equals

R_{xt} Proxy return) Market / Benchmark excess return (Benchmark return minus Risk Free Proxy return)

R_{yt} Portfolio excess return (Portfolio return minus Risk Free Proxy return)

β those of the market Beta – measure of the sensitivity of a portfolio’s rate of return against those of the market

n Number of observations

The portfolio’s beta is calculated by comparing the portfolio’s volatility to the benchmark’s volatility over time. The more sensitive a portfolio’s returns are to movements in the benchmark, the higher the portfolio’s beta will be. A beta greater than one implies the portfolio is more volatile than the benchmark, whilst a beta less than one implies the portfolio is less volatile than the benchmark.



R-Squared

$$r^2 = \frac{(n \sum R_{xi} R_{yi} - \sum R_{xi} \sum R_{yi})^2}{[n \sum (R_{xi})^2 - (\sum R_{xi})^2][n \sum (R_{yi})^2 - (\sum R_{yi})^2]}$$

Where

Equals

- R_{xi} Proxy return) Market / Benchmark excess return (Benchmark return minus Risk Free
- R_{yi} Portfolio excess return (Portfolio return minus Risk Free Proxy return)
- n Number of observations

The R² is the square of the correlation co-efficient between the portfolio return and the benchmark return in the above equation and is a measure of the fund's sensitivity to the benchmark, i.e. the percentage of the portfolio's movement that can be explained by movement in the benchmark. The R² statistic ranges from 0 to 1 (or 0 to 100%) with a score of 1 indicating that all the portfolio's movement can be explained by the benchmark.

Sharpe Ratio

$$\frac{(R_{ap} - R_{af})}{\sigma_{ap}}$$

Where

Equals

- R_{ap} Annualised (portfolio) rate of return
- R_{af} Annualised risk-free rate of return
- σ_{ap} Annualised portfolio standard deviation

The Sharpe ratio measures the excess return over the risk-free rate per unit of volatility. For a given return, the lower the volatility of the portfolio, the higher the Sharpe ratio.





Price/Earnings Ratio (P/E)

Security Level Calculation:

Current price/Trailing 12 months earning per share

Description:

The price/earnings ratio is a traditional indicator of how much an investor is paying for a company's earning power. Stocks have a p/e greater than the market are usually considered to be growth stocks.

5 Year Earnings Per Share Growth Rate

Security Level Calculation:

None

Description:

This is the percentage change in the annual earning per share growth rate over the last five years of all stock in the portfolio. This measure is usually viewed as a growth factor. A stock must have been public for at least five years to have this characteristic.

Price to Book Ratio

Security Level Calculation:

Current price/Most recent book value per share

Description:

This is usually considered to be a measure of "value", with stocks having high price to book ratios considered to be undervalued.

Dividend Yield

Security Level Calculation:

Dividend for current fiscal year/Period end closing price

Description:

This measures the annual rate that dividends are being paid by a company, including any extra dividends. High dividend yields can also be an attribute of value stocks.

Debt to Capital

Security Level Calculation:

Long term liabilities, deferred taxes, tax credits, minority interest/Sum of debt, total common equity and total preferred stock

Description:

This measure indicates the amount of leverage (debt) being used. A large debt to capital ratio is usually indicative of a highly leveraged company. Stocks having a zero value are still included in the total portfolio calculation.

Price to Sales Ratio

Security Level Calculation:

Current price/Annual sales per share

Description:

This is used primarily by value managers to identify companies having low profit margins. Value managers use this as another indicator in finding undervalued stocks with the potential for improved profitability. This measure varies in informational value by industry, as different industries have different price to sales ratio expectations.

Return on Equity

Security Level Calculation:

Net profits after taxes/Book value

Description:

This relates a company's profitability to its shareholders equity. A high ROE indicates that the portfolio is invested in companies that have been profitable. This measure is also impacted by financial leverage.



Coupon Rate

Description:

The stated interest rate of a bond. It is a money weighted average for the portfolio.

Years to Maturity

Description:

The average number of years to the maturity date of all bonds held in a portfolio. Often, managers will use the weighted average life for mortgages and mortgage backed securities since most mortgages are prepaid and never reach maturity.

Macaulay Duration

Description:

The mathematical estimate of a fixed income portfolio's sensitivity to a change in interest rates, computed as the weighted average time to receipt of the portfolio's cash flows. The Macaulay duration does not take the impact of embedded options into consideration and this usually results in a higher value than the effective duration.

Yield to Maturity

Description:

This is the rate of return that is expected if a fixed income security is held to maturity. It is essentially an internal rate of return that uses the current market value and all expected interest and principal cash flows.

Moody Quality Rating

Description:

This is a measure of the quality, safety and potential performance of a bond issue. Also indicates the creditworthiness of a security's issuer. Moody's evaluates the bond issues and assigns a code with Aaa as the highest and C as the lowest.



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End Q3 2010 portfolio overview

- ◆ The portfolio has performed well in the quarter having a TV/PI of 1.11x compared with 1.08x last quarter
- ◆ Since the last report, net invested capital has increased by Euro 0.1 million as distributions have kept pace with capital calls
- ◆ The strong level of distributions has pushed the d/pi to 0.33, the highest level attained by the portfolio so far
- ◆ NAV has risen by Euro 0.7 million, the Euro 0.6 million net increase in performance reflecting a continuing rise in equity valuations across the board
- ◆ The USD weakened by 11.2% against the Euro in the period and this had a minor negative impact on portfolio performance
- ◆ Managers are generally optimistic about the environment and continue to invest selectively

Q3 2010		Net Performance (in millions of Euros)									
		LBH Commitment	Drawn	Returned	Net	NAV	Gain	D/PI	TV/PI	Gross	Net
Total Euro Exposure		32.7	17.5	-5.9	11.6	13.4	1.8	0.34	1.10	53%	35%
Euro equivalent Dollar Exposure @ 1.3633 USD / Euro		6.0	3.4	-1.1	2.3	2.8	0.5	0.32	1.15	57%	39%
Total Exposure (in Euro millions)		38.7	20.9	-7.0	13.9	16.2	2.3	0.33	1.11	54%	36%
Q2 2010	1.2257	39.4	19.7	-5.9	13.8	15.5	1.7	0.30	1.08	50%	35%
Q1 2010	1.3509	38.7	18.7	-5.7	13.0	14.2	1.2	0.31	1.06	48%	34%
Q4 2009	1.4341	38.4	18.4	-5.4	13.0	13.6	0.7	0.29	1.04	48%	34%
Q3 2009	1.4643	38.3	17.3	-5.1	12.2	12.1	0.0	0.30	1.00	45%	32%
Q2 2009	1.4033	38.5	16.9	-4.9	12.0	12.3	0.2	0.30	1.02	44%	31%

Q3 figures as of 30th September 2010
D/PI - distributions per unit of paid-in capital, TV/PI - total value per unit of paid-in capital

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**London Borough of Hillingdon Pension Fund
Adams Street Partners Update: Second Quarter 2010**

Industry Update

Growing concerns about macroeconomic issues dominated the market's attitude toward equities during the second quarter of 2010, as sovereign debt issues in Europe, weakness in US consumer spending, and an apparent slowing pace of economic recovery in most parts of the world more than overshadowed evidence of continued company level earnings growth. Public equity markets fell by -12.7% during the three months ended June 30 as measured by the MSCI World Equity Index (in USD terms), halting what had been a dramatic price rebound since March of 2009. Public equity markets have remained volatile in the third quarter 2010 as investors have reacted nervously to incremental pieces of data suggesting at least a "soft patch" in overall economic growth.

Private equity company valuations are not immune to these macroeconomic factors and, as would be expected, faced meaningful headwinds during the second quarter after four quarters of improving performance. Fluctuating currency exchange rates also impacted overall results during the second quarter. Many of the non-US investments in our portfolios are denominated in the euro. Given the second quarter weakness of that currency relative to many others (and in particular the US dollar), due in part to the above-mentioned concerns over the state of the European sovereign debt market, performance for non-US investments tended to be negatively impacted by currency exposure when evaluated from a US dollar perspective. Overall however, our private equity returns appear to have held up better than those of public market counterparts. This is due in part to some attractively priced exits during the quarter, but also to the likelihood that in many cases portfolio company valuation write-ups during the past year had been made more conservatively than public market advances alone would have suggested and therefore did not require large write-downs in the second quarter when public markets turned. More recent subscriptions to Adams Street Partners have also been benefited by solid valuation improvements in 2010 coming from secondary investments and exposure to our direct investments.

Portfolio Statistics as of June 30, 2010

	Inception Date	Committed / Subscription	Drawn / Subscription	Drawn / Committed	Total Value / Drawn	IRR Since Inception*	Private Equity Market	Public Market
Total Hillingdon Portfolio	02/2005	95%	61%	65%	0.92x	-0.64%	N/A	-5.89%
2005 Subscription	02/2005	100%	73%	73%	0.95x	0.92%	N/A	-5.02%
2006 Subscription	01/2006	100%	63%	63%	0.86x	-2.58%	N/A	-6.29%
2007 Subscription	01/2007	88%	45%	51%	0.95x	2.48%	N/A	-6.21%
2009 Subscription	01/2009	26%	9%	34%	1.00x	30.59%	N/A	1.32%
Direct Co-Investment Fund	09/2006	100%	91%	91%	0.85x	-5.97%	N/A	-9.39%
Co-Investment Fund II	01/2009	100%	15%	17%	1.00x	11.60%	N/A	3.13%

*Gross of client's management fees paid to Adams Street Partners, LLC. Internal rates of return are not calculated for fund less than one year old; instead the return is the change in value over amount invested.

Note: The Private Equity Market represents the performance of the vintage years, based on data from Venture Economics, that are comparable to those of the ASP vehicle. June 30th was not available at print time. The Public Market is the equivalent return achieved by applying Hillingdon's cash flows to the MSCI World Index.

Main Drivers of Performance

Buyouts

Buyout funds have clearly been impacted in a number of ways by the credit market boom, bust and continued fragile recovery. First, valuations fell dramatically through the first quarter of 2009. Most vulnerable were investments made in the 2005-2007 time period when the combination of purchase price multiples and the amount of debt available to finance those multiples were at historically high levels. Although the buyout subclass rebounded in the second half of 2009 into 2010, the likelihood of longer holding periods and challenged valuations suggests that investment performance for buyout investments made during the middle of the past decade will be below our longer term expectations. Second, buyout deal volume slowed dramatically as access to credit markets deteriorated. We are now seeing a pickup in activity, but still have a long way to go to get back to what we would consider to be more "normal" levels. The positive by-product of this environment is that a larger amount of equity investment, as opposed to debt financing, as a percentage of overall purchase price has been required for the transactions that are being completed. This tends to help limit, although not eliminate, the degree of overall purchase price multiple expansion. As activity has gradually picked up, many market participants have been focusing this year on the impact of uninvested capital "overhang" within buyout funds and the potential for upward pressure on future pricing as that cash is put to work in a more aggressive manner. Purchase price multiples have expanded, with companies or sub-industries exhibiting defensive or non-cyclical earnings growth characteristics over the past couple of years generally fetching the most aggressive pricing. We feel comfortable in most cases that the buyout managers in our portfolio have been properly focused on managing their portfolio companies through the downturn, and are exercising cautious skepticism about the pricing environment as they more recently turn their eyes toward new opportunities for investment.

Venture Capital

We view our venture capital portfolio to be a source of very attractive returns in the years to come. As has been discussed in past quarterly letters, performance for the subclass has been lackluster for the better part of the last decade, but we are very encouraged prospectively by a number of factors. Many of the venture-backed companies in our portfolio have continued to grow revenues and

earnings in the face of very challenging macro-economic headwinds. Disappointing venture capital performance is not due to a lack of improving fundamentals at the company level, rather it has largely been the lack of an attractive exit market whereby the economic benefit of those improvements can be realized. The exit market has begun to slowly improve, and in instances where portfolio companies have gone public or have been strategically acquired by a larger organization, the impact on performance has been meaningfully positive. We expect this activity to continue, and accelerate, over time.

Portfolio Outlook

The opportunity set for future venture capital investment is as appealing today as it has been in well over a decade. Within the technology sector, significant changes to the source and distribution of advertising content or the growing role of cloud computing help disrupt the existing ecosystem of who does what within the space. These realignments to the status quo allow small, nimble businesses to innovate their way into meeting needs that in some cases did not exist even a year ago. In addition, there continues to be a growing pool of entrepreneurs drawn to the opportunities within life sciences and clean technology despite the seemingly ever-evolving role of government regulation.

The best venture capital returns have historically been concentrated with top tier venture capital funds, and our access to these funds has never been better. The dislocations of the past 24 months have allowed us to selectively upgrade what we already considered to be a very strong portfolio of venture capital managers. We have discussed in recent letters the fact that venture fundraising is down relative to prior years, and that we view this scarcity of capital to be very positive for the industry. This environment makes it that much more important to invest with those managers that back the most creative entrepreneurs and promising companies. We believe our positioning in this regard bodes well for the future.

LONDON BOROUGH OF HILLINGDON ALTERNATIVE INVESTMENTS SCHEDULE AS AT 30 SEPTEMBER 2010

LBH PRIVATE EQUITY FUNDS	COMMITMENTS		CALLED TO DATE		DISTRIBUTIONS		NET CURRENT	
	BASE CURRENCY	% of Fund	% of Fund	% of Fund	RECEIVED	% of Fund	INVESTMENT	% of Fund
LGT CAPITAL PARTNERS	£	%	£	%	£	%	000	%
	000		000		000		000	
Crown private Equity European Buyout Opport.	11,759	2.10	8,772	1.57	4,954	0.89	3,818	0.68
Crown Global Secondaries Plc (US\$)	1,898	0.34	1,566	0.28	796	0.14	770	0.14
Crown Private Equity European Fund	4,304	0.77	2,725	0.49	121	0.02	2,604	0.47
Crown Private Equity European Buyout Opport. II	8,608	1.54	2,884	0.52	0	0.00	2,884	0.52
Crown Asia-Pacific Private Equity Plc (US\$)	1,898	0.34	1,040	0.19	110	0.02	930	0.17
Crown European Middle Market II plc	3,443	0.62	654	0.12	0	0.00	654	0.12
Crown Global Secondaries II Plc (US\$)	1,392	0.25	330	0.06	30	0.01	300	0.05
TOTAL(S) LGT CAPITAL PARTNERS	33,302	5.95	17,971	3.21	6,011	1.07	11,960	2.14
ADAMS STREET PARTNERS	£		£					
Adam Street Partnership Fund - 2005 US Fund	8,856	1.58	6,288	1.12	445	0.08	5,843	1.04
Adam Street Partnership Fund - 2005 Non-U.S Fund	3,795	0.68	2,962	0.53	371	0.07	2,591	0.46
Adam Street Partnership Fund - 2006 Non-U.S Fund	2,847	0.51	1,830	0.33	149	0.03	1,681	0.30
Adam Street Partnership 2006 Direct Fund	949	0.17	837	0.15	16	0.00	821	0.15
Adam Street Partnership Fund - 2006 US Fund, L.P	5,693	1.02	3,530	0.63	149	0.03	3,381	0.60
Adams Street Direct Co-Investment Fund, L.P.	1,898	0.34	1,727	0.31	0	0.00	1,727	0.31
Adams Street Partnership 2007 Direct Fund LP	316	0.06	274	0.05	5	0.00	269	0.05
Adams Street Partnership - 2007 Non -US Fund	1,107	0.20	443	0.08	0	0.00	443	0.08

Adams Street Partnership - 2007 US Fund	1,740	0.31	766	0.14	30	0.01	736	0.13
Adams Street Partnership - 2009 US Fund	949	0.17	100	0.02	0	0.00	100	0.02
Adams Street Partnership - 2009 Direct Fund	190	0.03	62	0.01	0	0.00	62	0.01
Adams Street Direct Co-Investment Fund II.	1,581	0.28	230	0.04	0	0.00	230	0.04
Adams Street 2009 Non-US Emerging Mkt Fund	190	0.03	11	0.00	0	0.00	11	0.00
Adams Street Partnership 2009 Non-US Developed Market	569	0.10	25	0.00	0	0.00	25	0.00
TOTAL(S) ADAMS STREET PARTNERS FUNDS	30,680	5.48	19,085	3.41	1,165	0.21	17,920	3.20

FUND VALUE	559,598	
COMMITMENT STRATEGY TO ACHIVE INVESTMENT	48,965	8.75%
	27,980	5.00%
CURRENT INVESTMENT BOOK COST	28,891	5.16%
CURRENT INVESTMENT MARKET VALUE	31,255	5.59%

Fund Value as per NT Report (Excluding PE)	528,641.0
PE Investment (Market Value)	31,255.0
Total Fund Value	559,896.0

298.00

IRR

%

Sep-10

7.71

3.05

-3.76

-6.52

8.46

11.21

53.59

Jun-10

0.62

1.58

-1.70

-5.86

-1.99

N/A

3.11

-2.73

4.76

36.88

25.40

N/A

-0.67

28.32

The following summary is based on 88 funds with a total Market Value of £134,609m

Final Results

CATEGORY	ASSET MIX (%)		RETURNS (%)					
	Latest Quarter		Latest Quarter		Year to Date		Last 12 Months	
	IMV (%)	FMV (%)	Average	Index	Average	Index	Average	Index
TOTAL EQUITIES	63.2	64.5	11.2	-	7.1	-	11.5	-
GLOBAL POOLED INC UK	3.4	3.3	8.4	8.8	4.9	6.7	8.1	10.6
UK EQUITIES	27.2	28.2	14.0	13.6	7.5	6.6	13.0	12.5
OVERSEAS EQUITIES	32.5	32.9	9.1	8.3	6.9	6.9	10.6	10.5
North America	10.2	10.1	6.1	5.8	6.3	6.7	11.9	11.9
Europe	8.6	8.9	12.6	13.6	1.6	1.1	3.1	1.6
Japan	3.6	3.4	0.3	0.1	6.0	5.5	2.5	1.2
Pacific (ex Japan)	3.7	3.9	13.5	14.8	13.1	12.2	18.1	17.5
Emerging Markets	5.5	5.7	12.4	12.1	13.6	14.4	22.0	23.3
Global ex UK	0.8	1.0	8.9	8.3	6.5	6.9	10.5	10.5
TOTAL BONDS	18.6	17.6	4.4	-	10.1	-	10.6	-
U.K. BONDS	11.3	10.5	4.8	3.6	11.2	9.5	11.1	7.2
OVERSEAS BONDS	1.8	1.7	2.6	2.4	8.8	11.1	8.6	7.9
INDEX LINKED	4.5	4.4	4.0	3.6	8.0	7.7	9.7	9.4
POOLED BONDS	0.4	0.4	4.9	5.2	10.7	-	13.7	-
TOTAL CASH	3.9	3.6	1.0	0.1	1.6	0.3	2.4	0.4
ALTERNATIVES	7.3	7.5	2.3	-	5.6	-	7.0	-
Total Private Equity	3.5	3.6	2.5	-	9.2	-	9.7	-
Total Hedge Funds	2.6	2.5	1.9	-	4.5	-	6.4	-
Other Alternatives	1.3	1.4	2.7	-	-0.8	-	1.7	-
TOTAL EX-PROPERTY	93.2	93.3	8.7	8.8	7.2	6.7	10.6	10.1
TOTAL PROPERTY	6.8	6.7	2.1	2.2	9.7	12.0	17.5	22.6
TOTAL ASSETS	100.0	100.0	8.2	8.4	7.4	7.2	11.0	10.9

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PENSION FUND BUDGET 2010 - 2011

Contact Officers	Nancy le Roux, 01895 250353
Papers with this report	None

SUMMARY

At Committee in March 2010, Committee approved the budget for 2010 – 2011. This report provides an update at the end of quarter 2 against that budget.

RECOMMENDATION

- 1. It is recommended that committee note the budget position as at 30 September 2010.**

PENSION FUND BUDGET 2010- 2011

As explained previously, preparing a budget for the Pension Fund is complex and the investment areas are very difficult to predict given that they are subject to the vagaries of investment markets. Investment income and investment management fees are also unpredictable given that they are based on investment market performance which is largely outside the control of the Pension Fund. Therefore, budgets for the Pension Fund are prepared which make no forecast for the change in market value of investments, as this element of the budget is not one that can be predicted with any level of certainty. Budget monitoring is therefore based on "Surplus/Deficit from Operations" however it should be noted certain items within this section can also be difficult to predict and are therefore subject to large variances.

BUDGET MONITORING 2010/11

Member income projected from Month 6 is expected to be broadly in line with the budget, and comparable to last year, however if the numbers of redundancies continue to rise then a fall in scheme membership would occur, and potentially member income could fall.

At this stage, member's expenditure is projected to be 13% higher than last year. All elements of expenditure are currently estimated to be higher than the comparatives from last year. The greatest impact on this figure arises from the cost of lump sum retirement grants as a large volume of people retiring are taking the maximum lump sum – converting pension to lump sum. Additionally there have been a two death cases which paid out large death grants.

Net administration expenditure is expected to be broadly in line with last year's cost.

The current forecast is predicting a deficit from operations of £2.6 million, mainly due to the high member expenditure, as explained above. This will be a major concern going forward if this continues as the fund will need to draw on investment income to meet

operating expenditure. This situation will be monitored closely for both the impact of continuing redundancies and the impact of any scheme changes as they are announced.

This report does not report on a forecast for the return on investments as these returns are monitored quarterly through the fund manager performance reporting.

FINANCIAL IMPLICATIONS

As part of the governance responsibilities for the Pensions Committee they are required to approve and monitor an annual budget for the Fund. The management of the Pension Fund, including the setting of the budget, ensures that the Pension Fund is managed in an efficient and cost effective way. Poor management of the finances of the Pension Fund would lead to increased costs which would need to be reflected in higher contributions being paid by employers in the Pension Fund.

LEGAL IMPLICATIONS

There are no legal implications in this report.

**LONDON BOROUGH OF HILLINGDON
PENSION FUND
BUDGET MONITOR to 30.09.10**

	2009-010 Actual	2010-11 M6 Actual	2010-11 Budget	2010-11 Forecast
Member Income				
Employers Contributions	21,448	11,044	21,558	22,088
Employees Contributions	8,310	4,135	8,253	8,270
Transfer Values Receivable	4,057	1,817	3,906	3,634
Net Member Income	33,815	16,996	33,718	33,992
Member Expenditure				
Pension Payments	(22,025)	(11,483)	(22,115)	(22,966)
Lump Sum Retirement Benefits	(4,602)	(3,252)	(4,526)	(6,504)
Lump Sum Death Benefits	(503)	(814)	(639)	(1,628)
Refunds of Contributions	(7)	(8)	(8)	(16)
State Scheme Premiums	(2)	(2)	(3)	(4)
Transfer Values Payable	(4,557)	(2,372)	(5,547)	(4,744)
Net Member Expenditure	(31,696)	(17,931)	(32,838)	(35,862)
Net Member Surplus	2,119	(935)	880	(1,870)
Administration Expenditure				
Pensions Administration	(402)	(188)	(538)	(538)
Miscellaneous Costs	(126)	(1)	(55)	(55)
Investment Administration	(171)	(88)	(172)	(172)
Net Administration Expenditure	(699)	(277)	(765)	(765)
Surplus/Deficit from Operations	1,420	(1,212)	115	(2,635)
Returns on Investments				
Investment Income	11,066	4,152	10,549	
Change in Market Value of Investments	136,635	(14,959)	0	
Management Fees	(2,090)	(487)	(1,989)	
Irrecoverable Withholding Tax	(171)	(82)	(221)	
Net Returns on Investments	145,440	(11,376)	8,339	
Net Surplus in Period	146,860	(12,588)	8,453	
Fund Value B/fwd 01/04/2009	417,430	564,290	564,290	
Fund Value	564,290	551,702	572,743	

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RETIREMENT PERFORMANCE STATISTICS AND COST OF EARLY RETIREMENTS MONITOR

Contact Officers

Ken Chisholm, 01895 250847

Papers with this report

nil

SUMMARY

This report summarises the number of Early Retirements in the first quarter. Additionally it gives an update on the current situation on the cost to the fund of early retirements.

RECOMMENDATIONS

That the contents of the report be noted.

EARLY RETIREMENT PERFORMANCE STATISTICS

At Committee Meeting on 25th June 2008 it was agreed that as there was no statutory requirement to report figures against the previous BVPI 14 & BVI 15 targets, local performance indicators would be recorded and presented to Committee.

New performance indicators relevant to the revised Performance Indicators will be reported in all future reports to the Committee.

Number of Cases in the second quarter of 2010/11

The table below shows the number of employees, by category, whose LGPS benefits have been put into payment

	Redundancy	Efficiency	Ill Health	Voluntary over 60
2006/2007	14	2	6	36
2007/2008	19	3	24	29
2008/2009	26	0	12	37
2009/2010	16	0	13	31
Current year				
Apr 10 to Jun 10	2	0	2	12
July 10 to Sept 10	8	0	4	7

From 1st April 2008, employees retired on the grounds of permanent ill health, will be subject to the "New Scheme" assessment by the Occupational Health Practitioner. There are 3 tiers of enhancement, and these are:-

- There is no reasonable prospect of the employee obtaining gainful employment* before reaching normal retirement age (age 65). In these cases service is awarded up to age 65
- The employee cannot obtain gainful employment* within a reasonable period** of leaving local government employment***, it is likely that they will be able to obtain gainful employment* before their normal retirement age (age 65). In these cases 25% of their potential service to age 65 is awarded.
- The employee may be capable of obtaining gainful employment* within a reasonable period** of leaving local government employment***. In these cases no additional award of service is applied. The benefits payable are subject to the individual undergoing a medical review after 18 months to ascertain whether the medical condition is such that the employee is still unable to perform the duties of their previous employment. The maximum period that a third tier pension may be paid is 3 years. When the 3 year period has expired the pension will cease. Upon the employee attaining the age of 65, the pension is brought back into payment.

Note: * gainful employment is defined as paid employment for not less than 30 hours in each week for a period of not less than 12 months.

** reasonable period is defined as 3 years.

*** the term local government employment is used to indicate that the employee a member of the Local Government Pension Scheme, not that they work for a local authority.

The Local Government Pension Scheme Regulations 2008 introduced a protection for employees aged 45 and over who were members of the LGPS as at 31st March 2008. The protection ensures that any benefits paid as the result of ill health retirement are at least the same level as any potential benefits under the new regulations.

EARLY RETIREMENT COSTS MONITOR

As a result of a key recommendation by the Audit and Accounts Commission, local authorities were advised to calculate and monitor early retirement costs as they occurred within the LGPS between formal triennial valuations.

The Audit Commission recommended that each administering authority should ask their actuary to provide them with methods for determining early retirement costs. Our actuary, Hymans Robertson, consulted with other actuarial firms to agree a national approach. Our software provider subsequently programmed this into our 'Axis' pension system. As a result, the costs to the fund are automatically calculated each time an early retirement is processed.

This authority took the decision, in agreement with the fund actuary, to increase the employer's contribution rates as prescribed in the last valuation by 1%, effective from 1 April 2008, to meet anticipated early retirement costs.

This report is brought to committee quarterly to report on how the actual costs of early retirements compare to the 1% employer payment, over the 3 year valuation period.

MONITOR

Detail for Valuation Period 01.04.2008 to 31.03.2011

	Capital Cost of early retirement to the fund	Payroll Total	Cost as a % of payroll
2008/09	879,902	111,300,000	0.80
2009/10	501,559	111,600,000	0.45
Apr10 to Sept 10	294,697	111,600,000	0.26

FINANCIAL IMPLICATIONS

The cost to the pension fund of early retirements on the grounds of ill health, is recorded by the pensions section, and reported to the scheme Actuary. The cost includes the benefits being paid before the employees normal retirement date and any period of service awarded. Depending on which Tier the retirement falls in to, determines the length of service to be awarded. Details of the service to be awarded against each Tier are shown above. All Employers within the fund have a notional budget built in to their Employers Contribution Rate to fund ill health retirements. If the notional figure is exceeded, this will result in an increase to that Employers Contribution Rate, at the next valuation of the fund.

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

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Agenda Item 8

PENSIONS ADMINISTRATION PERFORMANCE

Contact Officers

Ken Chisholm, 01895 250847

Papers with this report

nil

SUMMARY

This report summarises the key work areas of the pensions administration section. The targets shown are within the nationally agreed targets for England and Wales. Full year performance data is included in the Annual Report for the fund. All data shown is extracted from the Pensions Administration System and monitored on a monthly basis.

RECOMMENDATIONS

That the contents of the report be noted.

KEY PERFORMANCE INDICATORS – Quarter 2 - 2010/2011

Area of Work	Target (Days)	Number processed within target	Percentage within Target	Total Cases
Transfer in quote	5	25	89.29	28
Transfer in Actual	5	29	87.88	33
Transfer Out Actual	9	17	100.00	17
Transfer Out Quote	5	2	100.00	2
Refund	5	3	60.00	5
Estimate of Retirement Benefits	10	229	91.60	250
Actual Retirement Benefits	5	67	94.37	71
Condolence Letter	2	29	96.67	30
Letter Notifying Dependants Benefits	5	9	100	9
Deferred Benefits	10	138	99.28	139
Answer General Enquiry Letter	7	184	100	184
Benefit Statement Enquiry	10	0	0	0
Admit new entrant	20	127	99.22	128
Additional Service Purchase	10			0
Total (2 nd Quarter)		830	96.17	863
Total (1 st Quarter)		870	94.67	919

FINANCIAL IMPLICATIONS

The costs to the pension fund of all early retirements are monitored. Early retirements at the Council's discretion are reported to Committee on a quarterly

basis. As part of the valuation, all employers within the fund have a notional budget built in to their employer's contribution rate to fund ill health retirements.

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

GOVERNANCE ISSUES

Contact Officers

Nancy Leroux

Papers with this report

Revised Statement of Investment Principles

SUMMARY

This report provides an update on Pension Fund Governance issues including recommended revisions to the Statement of Investment Principles to include details of the new Fund Managers and to comply with the Financial Reporting Councils Stewardship Code; progress on the review of public sector pensions and an update on various other general governance issues.

RECOMMENDATIONS

1. That Committee approve the revised Statement of Investment Principles
2. That Committee discuss their approach to the roll out and use of the Training and Skills Framework
3. That Committee note the contents of the other items in the report.

INFORMATION

1. REVISION TO THE STATEMENT OF INVESTMENT PRINCIPLES

The Statement of Investment Principles (SolP) has been updated to include specific detail in relation to the newly appointed Fund Managers and various minor updating amendments. In addition, the SolP has been updated to include Hillingdon's response to the Stewardship Code.

Stewardship Code

One of the outcomes of the financial crisis has been to seek to improve the extent and effectiveness of shareholder engagement with companies. One of the recommendations of the Walker Review was that the Financial Reporting Council (FRC) should have responsibility for a new Stewardship Code, setting out best practice in respect of investor engagement.

At the start of July the FRC published its version of the Stewardship Code, which has anticipated was based on the previous Institutional Shareholders Committee (ISC) principles. It is now expected that institutional investors publish a statement in respect to their adherence, or otherwise, to the Code in a way that mirrors 'comply or explain' statements made by companies under the Corporate Governance Code.

In its report on the implementation of the Stewardship Code, the FRC states that it would "strongly encourage" all institutional investors to publish a statement on their website on the extent to which they have complied with the Code. Hillingdon has requested responses from its managers with equity holdings and reviewed their statements regarding the adoption of

PART I - MEMBERS, PRESS & PUBLIC

PENSIONS COMMITTEE / 14 December 2010

the code. These are summarised below:

Fund Manager Responses

Manager: Alliance Bernstein

Views on the Stewardship Code: Fundamental research is Alliance Bernstein's driver to stewardship. Their response to code sets out how research is implemented into the principles of the stewardship code.

Review of Managers Statements: Response to the code has been issued which shows compliance with principles. Listed as an FRC signatory to the code.

Manager: Marathon

Views on the Stewardship Code: To avoid the duplication of work Marathon have postponed the issue of a statement until official guidelines have been released.

Review of Managers Statements: Marathon has various corporate policies in place. They expect to comply with the code. Not listed as an FRC signatory to the code.

Manager: UBS Global Asset Management

Views on the Stewardship Code: Strongly supportive of the new code

Review of Managers Statements: Detailed response to the code issued.

Listed as an FRC signatory to the code.

Manager: State Street Global Advisors

Views on the Stewardship Code: Engagement activity consistent with the principles of the code

Review of Managers Statements: Full response to be issued. Listed as an FRC signatory to the code.

Manager: Ruffer

Views on the Stewardship Code: At this stage, Ruffer does not intend to publish a statement on its website with regard to the Financial Reporting Council's (FRC) UK Stewardship Code.

Review of Managers Statements: Corporate governance remains an important responsibility that Ruffer conducts on behalf of its clients and it continues to do so in accordance with its Statement on Corporate Governance and Voting. Ruffer will continue to follow developments with regard to the Code and act in a manner that it considers in the best interest of its clients. Not listed as an FRC signatory to the code

Whilst the code is addressed primarily to fund managers the FRC encourages pension funds to report if and how they have complied with the code. At the most recent LAPFF meeting the adoption of the stewardship code was discussed and options for possible compliance statements were suggested. This report recommends an update to Hillingdon's SoIP by the inclusion of Appendix E to incorporate the Stewardship Code and demonstrate its support.

The updated SoIP with the changes highlighted, is attached.

2. REVIEW OF PUBLIC SECTOR PENSIONS

The independent review into public sector pension schemes, including the Local Government Pension Scheme and Teachers' Pension Scheme, and led by Lord Hutton was published on 7 October 2010. The review was commissioned to look both at ways of reducing the burden to taxpayers in the short term and to look at ways of making these schemes more affordable in the longer term.

The main recommendation to make short-term savings is to increase member contributions and the Government will make further announcements on this shortly. However, the review has suggested that increases should be managed so as to protect the low paid and, if possible, increases in contributions should be staged and need to be considered with a view to preventing a significant increase in opt out rates.

In the longer term, the design of all schemes will be reviewed and the detail on this will be published in March 2011. This will include consideration of whether these schemes can remain as final salary schemes. However, the report also recommends that benefits already earned by members should be protected.

3. KNOWLEDGE AND SKILLS FRAMEWORK

As part of our commitment to better Governance of the fund, it was previously agreed to participate in the knowledge and skills framework administered by The Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA in partnership with Hymans Robertson have developed a website which holds a central source of information targeted specifically to the LGPS, and associated Statutory Legislation.

Additionally it provides a Training Needs Analysis - a source of self assessment material to enable both Members and Officers to assess their knowledge skills and to continue their development. The training needs analysis has been designed to help measure an individuals own knowledge and understanding of core areas of the scheme. An example of this, specific to Members, will be provided in hard form at Committee to facilitate a discussion on how best use of this site can be made going forward as part of committee's development.

We have registered all of Committee to have access to this site and specific log in details will be issued at the Committee meeting.

4. CLUB VITA - Annual Reports

London Borough was one of the first local authorities to join Club Vita – a service to provide longevity services to occupational pension schemes in the UK. Longevity risk is one of the biggest unmanaged risk any pension fund faces.

This year's annual reports have just been published based on information supplied by the pension's administration system. The reports provide analysis on the mortality experience for the Hillingdon Fund against a combined dataset of 113 other pension funds. The report

outlines emerging longevity trends and whether our members are surviving in greater or fewer numbers than anticipated, and the impact these results have on our funding plans.

Hillingdon results indicate that:

- The average age of new retirees (from active service) has been increasing over the last decade and is generally higher than other LGPS Schemes.
- A decreasing proportion of members have been retiring on ill health.
- More pensions remain in payment at the year ending 31 August 2010 than anticipated under our current funding assumptions.
- As at 22 October 2010 the oldest male pensioner was 105 years and 171 days old and our oldest female pensioner was 99 years and 238 days old.

The results from these reports are taken into account by the scheme actuary as part of the Fund valuation process.

5. COMMUNICATION

The Pensions' website on both the Councils Internet and Intranet website has not been updated for some time. Work is in progress to bring the website up to date. All documents and forms available on the website have been amended and will be posted to the site by January 2011. Work to amend and update all the other information on the site is ongoing and should be completed by March 2011. Revised Policy Documents will be brought to this Committee for approval in March 2011, prior to their inclusion in the 2011 Annual Report.

FINANCIAL IMPLICATIONS

Direct Financial implications arising from the report on the SolP are the ongoing cost of member training. This cost will vary annually depending on the level of training required.

LEGAL IMPLICATIONS

The SolP report complies with regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which came into force on 1st January 2010.

Statement of Investment Principles

(Revised December 2010)

INTRODUCTION

- The London Borough of Hillingdon (the Council) is the administering authority of the London Borough of Hillingdon Pension Fund (the Fund). The Fund operates under the national Local Government Pension Scheme (LGPS), which was established by statute to provide death and retirement benefits for all eligible employees. This Statement of Investment Principles applies to the Fund.
- In preparing the Statement of Investment Principles, the Council has consulted its professional advisers and representatives of the members of the Fund and has received written advice from the Fund Actuary and the Investment Practice of Hymans Robertson LLP.
- The Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009 sets out the powers and duties of the administering authority (the authority) to invest Fund monies. The authority is required to invest any monies which are not required immediately to pay pensions and any other benefits and, in so doing, to take account of the need for a suitably diversified portfolio of investments and the advice of persons properly qualified on investment matters.
- The CIPFA Pension Panel's guidance "Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom" which was issued in 2002 brought together ten principles with practical comment on their application to funds in England, Wales, Scotland and Northern Ireland. In 2008, following extensive consultation, the ten original principles which were issued by the government for application to pension funds, corporate and public sector were updated and consolidated into six new principles.
- The Investment Governance Group, with members drawn from the Pensions Regulator, the Department for Communities and Local Government, the CIPFA Pension Panel and LGPS interests, examined these six principles and with the agreement of the Pensions Regulator made changes to the wording to reflect the particular circumstances of the LPPS. The revised principles and guidance reflecting the changes in wording was released at the end of 2009 and this Statement complies with the disclosure of the revised principles.
- This Statement of Investment Principles outlines the broad rules governing the investment policy of the Pension Fund. Attached, at Appendix A, are the new six headline principles of investment decision making and disclosure and the extent to which the London Borough of Hillingdon complies with the principles.
- The Council has delegated its responsibilities in relation to investment policy to the Pensions Committee.
- Management of the investments is carried out by fund managers appointed by the Pensions Committee. Fund Managers work within the policies agreed by the Pensions Committee.

- The Council's investment powers are set out in Regulations made by the Department of Communities and Local Government, applicable to the Local Government Pension Scheme. This Statement is consistent with these powers.
- The investment managers may only delegate their duties to a third party in accordance with the terms of their client agreement and subject to providing appropriate safeguards to the Council.

INVESTMENT RESPONSIBILITIES

The structure of investment responsibilities and decision making is listed below and follows best practice adopted by other Local Authorities in relation to their Pension Schemes.

The **Pensions Committee** has responsibility for:

- Appointing the investment manager(s) and any external consultants felt to be necessary,
- Appointing the custodian,
- Reviewing on a regular basis (quarterly) the investment managers' performance against established benchmarks, and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls,
- Ensuring that investments are sufficiently diversified, are not over concentrated in any one type of investment, and that the Fund invests in suitable types of investments,
- Approving the Statement of Investment Principles, and
- Monitoring compliance with the Statement and reviewing its contents from time to time.

The **Director of Finance and Resources** has responsibility for:

- Preparation of the Statement of Investment Principles to be approved by the Pensions Committee,
- Assessing the needs for proper advice and recommending to the Committee when such advice is necessary from an external adviser,
- Deciding on whether internal or external investment management should be used for day to day decisions on investment transactions,
- Ensuring compliance with the Statement of Investment Principles and bringing breaches thereof to the attention of the Pensions Committee, and
- Ensuring that the Statement of Investment Principles is regularly reviewed and updated in accordance with the Regulations.

The **Investment Consultants** are responsible for:

- Assisting the Pensions Committee and the Director of Finance and Resources in their regular monitoring of the investment managers' performance,
- Assisting the Pensions Committee and the Director of Finance and Resources in the setting of investment strategy
- Assisting the Pensions Committee and the Director of Finance and Resources in the selection and appointment of investment managers and custodians, and
- Assisting the Pensions Committee and the Director of Finance and Resources in the preparation and review of this document

The **Actuary** is responsible for:

- Assisting the Pensions Committee in the preparation and review of this document, and
- Providing advice as to the maturity of the Fund and its funding level in order to aid the Pensions Committee in balancing the short-term and long-term objectives of the pension Fund.

The **Investment Managers** are responsible for:

- The investment of the Fund's assets in compliance with prevailing legislation, the constraints imposed by this document and the detailed Investment Management Agreement,
- Tactical asset allocation around the strategic benchmark,
- Security selection within asset classes,
- Preparation of quarterly reports including a review of investment performance,
- Attending meetings of the Pensions Committee as requested,
- Assisting the Pensions Committee and the Director of Finance and Resources in the preparation and review of this Statement, and
- Voting shares in accordance with the Council's policy except where the Council has made other arrangements.

The **Custodian** is responsible for:

- Its own compliance with prevailing legislation,
- Providing the authority with quarterly valuations of the Fund's assets and details of all transactions during the quarter
- Collection of income, tax reclaims, exercising corporate administration and cash management.
- Providing a Securities Lending Service and complying with the limitation that no more than 25% of the fund is to be on loan.

FUND LIABILITIES

Scheme Benefits

The LGPS is a defined benefit scheme, which provides benefits related to final salary for members. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the Fund's assets. Full details of the benefits are set out in the LGPS regulations.

Financing benefits

All active members are required to make pension contributions based on the percentage of their pensionable pay as defined in the LGPS regulations.

The London Borough of Hillingdon is responsible for meeting the balance of costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined from time to time by the Fund's actuary.

Actuarial valuation

The Fund is valued by the actuary every three years in accordance with the LGPS regulations and monitored each year in consultation with employers and the actuary. Formal inter-valuation monitoring has also been commissioned.

INVESTMENTS

Approach

- The investment approach is to appoint expert fund managers with clear performance benchmarks and place maximum accountability for performance against those benchmarks with the investment manager.
- Overall, the strategic benchmark is intended to achieve a return such that the Fund can, without excessive risk, meet its obligations without excessive levels of employers' contributions.
- Performance is monitored quarterly and a formal review to confirm (or otherwise) the continued appointment of existing managers is undertaken annually.
- The investment strategy is reviewed annually, with a major review taking place following the triennial actuarial valuation.

Investment managers and advisers

The investment managers currently employed by the Council to manage the assets of the Fund are, Adams Street Partners, Alliance Bernstein Ltd, Fauchier Partners, Goldman Sachs Asset Management, LGT Capital Partners, Marathon Asset Management, Ruffer LLP, State Street Global Advisors and UBS Global Asset Management (UK) Ltd. Each manager is responsible for the day-to-day management of a portfolio of investments for the Fund.

Custodian services for the Fund's assets are provided by Northern Trust.

The investment managers are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

Hymans Robertson LLP act as the Fund's Actuary and Investment Consultant and give written advice on appropriate investment strategies. Valentine Furniss acts as an independent advisor to the pension fund and provides advice and challenge on appropriate investment strategies.

Client agreements have been made with each of the above investment managers and advisers. The Director of Finance and Resources has been delegated the authority to agree amendments to these agreements.

The Pension Committee regularly monitors the performance of the investment managers and its advisers, on behalf of the Council.

Types of investments to be held and the balance between these investments

Based on expert advice and taking into account the Fund's liabilities, the Pension Committee has determined a benchmark mix of assets considered suitable for the Fund. The asset mix currently includes equities (public and private), bonds (government, corporate and index-linked), property, cash and absolute return and fund of hedge fund strategies. Investments are made in the UK, the major overseas markets and in emerging markets. The fund managers have discretion to vary the allocation of investments between markets on a tactical basis. Appendix D shows the benchmarks for the fund managers and the permitted ranges in which the assets can fluctuate, as at the date of this document.

A review study is carried out after each actuarial revaluation and used to consider the suitability of the existing investment strategy.

The suitability of investments

The managers may invest in equities and bonds, including collective vehicles, property and cash, consistent with their mandates, without consultation with the Council. Managers invest in accordance with Schedule 1 'Limits on Investments' of the LGPS (Management and Investment of Funds) Regulations 2009 as amended. The current Limits for the London Borough of Hillingdon Pension Fund are set out at Appendix B.

Other types of investment may be approved by the Committee after taking professional advice.

The expected return on investments

Investment managers are given target performance standards and their actual performance is measured against these. These targets (gross of fees) are:

Alliance Bernstein	- 2.00% p.a. in excess of benchmark
Fauchier	- 5.00% p.a. in excess of benchmark
Goldman Sachs	- 0.75% p.a. in excess of benchmark
Marathon	- Outperform benchmark
Ruffer	- Outperform benchmark
State Street Global Advisors	- Achieve Benchmark
UBS Asset Management	- 2.00% p.a. in excess of benchmark
UBS Property	- 1.00% p.a. in excess of benchmark

Overall, the targets are intended to achieve above average performance, relative to earnings and inflation, without excessive risk, so that the Fund can meet its obligations without excessive levels of employer's contribution.

Performance is monitored quarterly and a formal review to confirm (or otherwise) the continued appointment of existing managers is undertaken annually.

Fee Structures

Alliance Bernstein	- Tiered fee based on portfolio value.
Fauchier	- Performance based
Goldman Sachs	- Tiered fee based on portfolio value.
Marathon	- Performance based
Ruffer	- Fixed flat fee based on portfolio value
State Street Global Advisors	- Fixed flat fee based on portfolio value.
UBS Asset Management	- Tiered fee based portfolio value.
UBS Property	- Fixed fee based on portfolio value.
Hymans Robertson	- Price per piece
Valentine Furniss	- Fixed fee

In each case best value is the basis for selection of fee structures.

Risk and diversification of investments

It is the Council's policy to invest the assets of the Fund so as to spread the risk on investments.

The diversification of asset types is intended to ensure a reasonable balance between different categories of investments so as to reduce risk to an acceptable level.

Each manager is expected to maintain a diversified portfolio within each asset class and is permitted to use collective investment vehicles as a means of providing diversification in particular markets.

Where managers wish to use futures, specific arrangements are agreed to limit the Fund's exposure to risk.

The management of Fund assets is spread over more than one manager, with different performance targets, as a further measure to reduce overall risk.

The key risks facing the Pension Fund are reported to the Pension Committee on a quarterly basis where they are monitored and reviewed.

The realisation of investments

The majority of stocks held by the Fund's Investment Managers are quoted on major stock markets and may be realised quickly if required. Property and private equity investments, which are relatively illiquid, currently make up a modest proportion of the Fund's assets. In general, the investment managers have discretion as to the timing of realisations. If it becomes necessary for investments to be sold to fund the payment of benefits, the Pension Committee and the manager(s) will discuss the timing of realisations.

Pension Fund Treasury Management Policy

The Local Government Pension Scheme (Management and Investment of Funds) 2009 requires the pension fund to hold its own separate bank account. The use of a separate pension fund bank account requires the introduction of a dedicated treasury management activity solely for the pension fund.

The prime objective of the pension fund treasury management activity is the security of the principal sums invested. As such it will take a prudent approach towards the organisations employed as bankers and deposit takers.

The pension fund will ensure it has adequate, though not excessive, cash resources to enable it at all times to have the level of funds available to it which are necessary for the achievement of its objectives.

The pension fund may borrow by way of temporary loan or otherwise any sums which it may require for the purpose of paying benefits due under the scheme, or to meet investment commitments arising from the implementation of a decision by it to change the balance between different types of investment. The pension fund may only borrow money for these circumstances if, at the time of borrowing, the pension fund reasonably believes that the sum borrowed and interest charged in respect of such sum can be repaid out of its pension fund within 90 days of the date of the borrowing.

The pension fund will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

In terms of treasury management the Pension Fund will operate separately from the Council and as such any transactions carried out by or on behalf of either party will be settled by cash transfer in a timely manner. The financial accounting is also separated, monitored and reconciled, to ensure any balances are identified and accounted for in the proper manner.

POLICY ON SOCIALLY RESPONSIBLE INVESTMENT

The Council supports the principle of socially responsible investment, within the requirements of the law and the need to give the highest priority to financial return. The investment managers are expected to have regard to the impact of corporate decisions on the value of company shares in making their investment decisions. The Council will consider supporting actions designed to promote best practice by companies where necessary and appropriate. The investment managers' discretion as to which investments to make will not normally be overridden by the Council, except on the basis of written information from other advisers.

The Pensions Committee has discussed socially responsible investment in the context of investment strategy. It has decided that the principle of the Fund's investment policy is to obtain the best possible return using the full range of investments authorised under the Local Government Pension Scheme regulations.

The Council is a member of Local Authority Pension Fund Forum (LAPFF) and uses it as a platform for engagement on environmental, socially responsible issues and corporate governance rather than disinvesting.

The Council supports the Stewardship Code issued by the Financial Reporting Council, however in practice the fund's policy is to apply the code through its fund managers and membership of LAPFF. (See appendix E)

In addition to the Stewardship Code the Council also supports the UK Environmental Investor Code and the CERES Principles.

EXERCISE OF RIGHTS ATTACHING TO INVESTMENT

It is the Council's policy to be an active shareholder. Where the pension Fund has securities held in a portfolio which have associated with them a right to vote on resolutions, the Pension Committee has delegated the exercise of these rights to the Fund Managers in accordance with the authority's corporate governance policy. The Council's policy is that that all proxies are to be voted where practically possible.

The Council's policy on corporate governance is that it normally expects the Fund Managers and companies to comply with the Combined Code published by the London Stock Exchange in June 1998 following the recommendations of the Hampel Committee. The Code integrated the earlier Cadbury and Greenbury Codes together with some additional recommendations.

Fund Managers' right to vote on behalf of the Fund are subject to conforming with the overall principles set out in this Statement and with the prevailing regulations.

From time to time, the Pension Committee may feel strongly concerning certain policies and at this time would advise the managers how to execute their votes. Attached at Appendix C are the Pension Committee's broad guidelines on exercising the Council's voting rights.

STOCK LENDING

The Stock Lending programme is managed by the Fund's custodian Northern Trust. They comply with the limitation that no more than 25% of the fund is to be on loan.

All loans are fully collateralised with Government obligations, Local Authority Bonds or Bills, letters of credit, certificates of deposit or equities issues.

Information regarding Stock Lending activity is reported to Pensions Committee on a quarterly basis.

COMPLIANCE

The London Borough of Hillingdon as the administering authority of the London Borough of Hillingdon Pension Fund complies with the guidance given by the Secretary of State.

The investment managers and all other investment advisers are requested to exercise their investment powers in support of the principles set out in this Statement and in accordance with the Regulations.

The Pension Committee reviews the performance of the investment managers on a quarterly basis. Northern Trust provides an independent monitoring service. Officers meet with Fund Managers on a quarterly basis and make a report on those meetings to Committee. Professional advice is taken as appropriate and an annual review is carried out. This Statement of Investment Principles is reviewed by the Pensions Committee at least annually and revised when necessary.

APPENDIX A

CIPFA Principles for Investment Decision Making and Disclosure

The table below identifies the basis and status of Compliance of the Pension Fund with the CIPFA Principles of Investment Decision Making and Disclosure.

<p>Principle 1 Effective Decision Making</p>	<p>Administering Authorities should ensure that:</p> <ul style="list-style-type: none"> • decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implication and • those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. 	<p>Compliant</p> <p>All investment decisions are taken within a clear and documented structure by the Pension Committee, which is responsible for the Management of the Council's Pension Fund. Committee are provided with bespoke training when specific decisions are required and have committed to regular training.</p> <p>The officer support team has sufficient experience to support Committee in making decision making responsibilities. It undertakes regular training as part of a continued personal development plan.</p> <p>There is an Investment Sub Group made up of senior officers, committee members, the scheme adviser and an independent Chair which acts as a specialist investment and asset allocation advisory body.</p> <p>An independent adviser sits on the Pension Committee to add additional challenge to the advice received.</p>
<p>Principle 2 Clear objectives</p>	<p>An overall investment objective(s) should be set out for the fund that takes accounts of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers and these should be clearly communicated to advisors</p>	<p>Compliant</p> <p>The investment objectives and attitudes to risk are set out in the Statement of Investment Principles and Funding Strategy Statement.</p> <p>Overall fund objects are reviewed properly as part on the ongoing monitoring of the fund.</p>

	and investment managers.	
Principle 3 Risk and liabilities	<p>In setting and reviewing their strategy, administering authorities should take account of the form and structure of liabilities.</p> <p>These include the implication for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</p>	<p>Compliant</p> <p>The review of the Funding Strategy takes into account relevant issues and implications.</p>
Principle 4 Performance assessment	<p>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.</p> <p>Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.</p>	<p>Partly Compliant</p> <p>Both the performance of the fund and the performance of the fund managers are monitored on a regular basis. Committee procedures, decision making and deferral of decisions are recorded in the committee papers.</p> <p>Assessment of the authority's own effectiveness and that of the advisers is yet to be implemented.</p>
Principle 5 Responsible ownership	<p>Administering authorities should:</p> <ul style="list-style-type: none"> • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents • include a statement of their policy on responsible ownership in the statement of investment principles • report periodically to scheme members on the discharge of such responsibilities. 	<p>Partially Compliant</p> <p>The Council includes a policy on Socially Responsible Investment within the Statement of Investment Principles.</p> <p>Fund manager engagement and Local Authority Pension Fund Forum activities are reported and reviewed on a quarterly basis.</p>
Principle 6 Transparency and reporting	<p>Administering authorities should:</p> <ul style="list-style-type: none"> • act in a transparent manner, communicating with shareholders on issues relating to their management 	<p>Partially Compliant</p> <p>The Statement of Investment Principles and Funding Strategy Statement are published on the Council's website and are updated</p>

	<p>of investment, its governance and risks, including performance against stated objectives</p> <ul style="list-style-type: none"> • provide regular communication to scheme members in the form they consider most appropriate. 	<p>as required.</p> <p>The Pension Annual Report provides details of manager and fund monitoring and is available on the Council website. Members are directed to the website but hard copy reports are available on request.</p> <p>The minutes and decisions taken at Pension Committee meetings are available on the Council website.</p>
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APPENDIX B

Limits on Investments

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended, Schedule 1, set out the legal requirements which apply to the investments of the Fund. The statutory regulations specify the following restrictions on investments:

Investment	Limit
Any single sub-underwriting contract	1%
All contributions to any single partnership	2%
All contributions to partnerships.	5%
The sum of: All loans (except Government Loan) Any deposits with any local authority; or any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the 2000 Act) in respect of accepting deposits as a result of an order made under section 38(1) of that Act.	10%
All investments in unlisted securities of companies	10%
Any single holding (but see paragraphs 1 and 2 below).	10%
All deposits with any single bank, institution or person (other than the National Savings Bank).	10%
All sub-underwriting contracts.	15%
All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (but see paragraph 2 below	25%
All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	25%
All investments in unit or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body (but see paragraph 2 below).	25%
Any single insurance contract.	25%
All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%
<p>1.Restrictions identified in the above table does not apply if:</p> <ul style="list-style-type: none"> (a) the investment is made by an investment manager appointed under regulation 8; and (b) the single holding is in units or other shares of the investments subject to the trusts of any one unit trust scheme. <p>2. Restrictions identified in the above table do not apply to:</p> <ul style="list-style-type: none"> (a) National Savings Certificates; (b) fixed-interest securities issued by Her Majesty's Government in the United Kingdom, the Government of Northern Ireland or the Government of the Isle of Man and registered in the United Kingdom or the Isle of Man or Treasury Bills; (c) any securities the payment of interest on which is guaranteed by Her Majesty's Government in the United Kingdom or the Government of Northern Ireland; or (d) a deposit with a relevant institution. 	

An Investment Management Agreement is in place with each Fund Manager which clearly defines the investment guidelines for the portfolio they manage.

If individual managers invest outside the laid down investment guidelines then they will consult with the Director of Finance and Resources for direction and report to the Pension Committee at the next available opportunity.

Voting Guidelines

The main focus is to promote maximum long-term shareholder value and protect the interest of shareholders.

Recommendations	For / Against	Voting Guidance
General		Vote with Fund managers Take into account the principles derived from the Combined Code and related UK initiatives
Environmental Concerns The UK Environmental Investor Code		Encourage and support companies that demonstrate a positive environmental response. Commitment to environmental excellence, monitor their impacts, improvements in their performance, comply with all legislation, regular reports of progress on environmental standards
The CERES Principles		Adopt the CERES principles, corporations have a responsibility for the environment, they are stewards, mustn't compromise the ability of future generations to sustain themselves.
Human Rights		Ensure high standards of employment and industrial relations in all companies
SRI		Consider socially responsible and governance issues but abide by legal rules which may limit investment choice on purely socially responsible and governance grounds, consideration to financial interest of fund members comes first.
The Report and Accounts	For	Legal regulatory requirements are met
	Against	Material inadequacies in the report and accounts
Directors Election	For	Regular re-election, full autobiographical information
	Against	Insufficient information, no regular re-election, appointment combining chairman and chief executive
Non-Executive directors	For	Independent of management, exercise free independent judgement
	Against	Lack of independence, automatic reappointment
Employment Contracts	For	Contract period no more than 2 years
	Against	Contract over 2 years
Directors Remuneration and employee share schemes	For	Remuneration must be visible, share schemes open to all staff, schemes costs and value are quantified by the company,
	Against	Remuneration above the market rate, poor performance rewards, Shares schemes only open to directors and option schemes that are not quantified.
Appointment of Auditors	For	Protect independence of auditors and ensure non-audit work is less than 25% of total fees. Appointment of auditors be for at least 5 years.

APPENDIX D

Investment Structure – Performance Benchmark, Permitted Ranges and Comparative Indices

ALLIANCE BERNSTEIN			
Asset Class	Benchmark %	Ranges %	Index
North America	35	20 – 50	FTSE: AW North America
Europe (Ex UK)	30	15 - 45	FTSE: Developed Europe ex-UK
Japan	15	0 – 30	FTSE: AW Japan
Pacific (Ex Japan)	10	0 – 25	FTSE: Developed Asia Pacific ex-Japan
Emerging Markets	10	0 – 25	FTSE All World Emerging Markets
Cash	0	0 – 10	
Total	100		

FAUCHIER			
Asset Class	Benchmark %	Ranges %	Index
Fund of Hedge Funds	100	n/a	LIBOR 3 month
Total	100		

GOLDMAN SACHS			
Asset Class	Benchmark %	Ranges %	Index
UK Fixed Interest	70	60-80	iBoxx Sterling Non Gilts
UK Index-Linked (over 5 years)	30	20-40	UK Index Linked Gilts over 5 year
Total	100		

MARATHON			
Asset Class	Benchmark %	Ranges %	Index
Global Equities	100	n/a	MSCI World
Total	100		

Ruffer			
Asset Class	Benchmark %	Ranges %	Index
Absolute Return	100	n/a	LIBOR 3 month
Total	100		

STATE STREET GLOBAL ASSET MANAGEMENT			
Asset Class	Benchmark %	Ranges %	Index
UK Equity Index sub-Fund	44	Rebalanced Quarterly +/- 10% of Benchmark	FTSE All Share
North America Equity Index sub-fund	11		FTSE World North America
Europe ex UK Equity Index sub-fund	11		FTSE World Europe ex UK
Asia Pacific Equity Index sub-fund	11		FTSE Developed Asia Pacific
Emerging Markets Equity Index fund	3		FTSE All-World All Emerging
UK Conventional Gilts All Stocks fund	1.5		FTA British Govt Conventional Gilts All Stocks
Index-Linked Gilts All-Stocks Index fund	10		FTA British Govt Index Linked Gilts All Stocks
Sterling Corporate Bond All Stocks fund	8.5		Merrill Lynch Sterling Non Gilt
Total	100		

STATE STREET GLOBAL ASSET MANAGEMENT Account 2			
Asset Class	Benchmark %	Ranges %	Index
Sterling Corporate Bond All Stocks Index sub-Fund	50	+/- 10% of Benchmark	Merrill Lynch Sterling Non Gilt
Sterling Liquidity sub-Fund	50		
Total	100		

UBS GLOBAL ASSET MANAGEMENT – EQUITIES			
Asset Class	Benchmark %	Ranges %	Index
UK Equities	100	40 - 100	FTSE All Share
Cash	0	0 – 10	
Total	100		

UBS PROPERTY			
Asset Class	Benchmark %	Ranges %	Index
Property	100	+/- 25%	IPD Index
Cash	0	0 - 10	
Total	100		

Stewardship Code

Principle	Response
Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	<p>The London Borough of Hillingdon Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to do so too. Stewardship is seen as part of the responsibilities of share ownership, and therefore an integral part of the investment strategy.</p> <p>In practice the fund’s policy is to apply the Code both through its arrangements with its asset managers and through membership of the LAPFF and NAPF.</p>
Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.	<p>The fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest.</p> <p>In respect of conflicts of interest within the fund, pension committee members are required to make declarations of interest prior to committee meetings.</p>
Principle 3 - Institutional investors should monitor their investee companies	<p>Day-to-day responsibility for managing our investments is delegated to our appointed asset managers, and the fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken. Reports from our fund managers on voting are received and engagement activity is reported to committee quarterly.</p> <p>In addition the fund receives ‘alerts’ from Local Authority Pension Fund Forum. These highlight corporate governance issues of concern and are considered accordingly.</p>
Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.	<p>As highlighted above, responsibility for day-to-day interaction with companies is delegated to the fund’s asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.</p> <p>On occasions, the fund may participate in escalation of poignant issues, principally through engagement activity through the Local Authority Pension Fund Forum.</p>
Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.	<p>The fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The fund seeks to achieve this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members.</p>

<p>Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.</p>	<p>In respect of shareholder voting, the fund seeks to exercise votes attached to its UK equity holdings, and to vote where practical in overseas markets.</p> <p>Responsibility for the exercise of voting rights has been delegated to the fund’s appointed asset managers and this includes consideration of company explanations of compliance with the Corporate Governance Code.</p> <p>Regular reports are received from the asset managers on how votes have been cast, and controversial issues can be discussed at panel meetings.</p> <p>The fund does not currently disclose any voting data.</p>
<p>Principle 7 - Institutional investors should report periodically on their stewardship and voting activities</p>	<p>The fund reports annually on stewardship activity through a specific section on “Responsible Investing” in its annual report.</p>

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government (Access to Information) Act 1985 as amended.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government (Access to Information) Act 1985 as amended.

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